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卓裕控股有限公司

（根據公司條例於香港註冊成立的有限公司）

作為發行人

3,000,000,000美元
有擔保中期票據計劃
由



越秀地產股份有限公司
YUEXIU PROPERTY COMPANY LIMITED

（根據公司條例於香港註冊成立的有限公司）

（股份代號：00123）

（「擔保人」）

提供擔保

刊發發售通函

本公告乃根據香港聯合交易所有限公司（「聯交所」）證券上市規則（「上市規則」）第37.39A條刊發。

請參閱本公告隨附日期為二〇二一年一月八日的發售通函(「發售通函」)，內容有關3,000,000,000美元有擔保中期票據計劃(「該計劃」)。誠如發售通函所披露，該計劃發行之票據擬定僅供專業投資者(定義見上市規則第37章)購買，並將按此基礎於聯交所上市。

發售通函並不構成向任何司法權區的公眾提呈出售任何證券的招股章程、通告、通函、宣傳冊或廣告，亦並非向公眾發出邀請以就認購或購買任何證券作出要約，且並非供分發以邀請公眾發出認購或購買任何證券之要約。

發售通函不得被視為認購或購買任何證券的勸誘，且並無意進行有關勸誘。不應以發售通函所載資料作為投資決定的依據。

香港，二〇二一年一月十一日

於本公告日期，發行人董事會成員包括陳靜、魏愷及劉艷。

於本公告刊發日期，擔保人董事會成員包括：

執行董事： 林昭遠(董事長)、林峰、李鋒、陳靜及劉艷

非執行董事： 歐陽長城

獨立非執行董事： 余立發、李家麟及劉漢銓

IMPORTANT NOTICE

NOT FOR DISTRIBUTION TO ANY PERSON OR ADDRESS IN THE UNITED STATES AND, IN THE CASE OF CATEGORY 2 (AS DESCRIBED IN THE OFFERING CIRCULAR) OFFERING, ANY U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"))

IMPORTANT: You must read the following before continuing. The following applies to the attached offering circular (the "**Offering Circular**") following this page, and you are therefore advised to read this carefully before reading, accessing or making any other use of the Offering Circular. In accessing the Offering Circular, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD OR (IN THE CASE OF SECURITIES IN BEARER FORM) DELIVERED WITHIN THE UNITED STATES, OR (IN THE CASE OF CATEGORY 2 OFFERING) TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS, EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS AND SECURITIES IN BEARER FORM ARE SUBJECT TO U.S. TAX LAW REQUIREMENTS.

THE OFFERING CIRCULAR MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND IN PARTICULAR, MAY NOT BE FORWARDED TO ANY ADDRESS IN THE UNITED STATES. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF SUCH DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

Confirmation of your Representation: The Offering Circular is being sent at your request and by accepting the electronic mail and accessing the Offering Circular, you shall be deemed to have represented to us that you are not in the United States and in the case of Category 2 offering, are not U.S. persons, and that the electronic mail address that you gave us and to which this electronic mail has been delivered is not located in the United States and that you consent to delivery of such Offering Circular by electronic transmission.

You are reminded that the Offering Circular has been delivered to you on the basis that you are a person into whose possession the Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver the Offering Circular to any other person.

The materials relating to the offering of securities to which the Offering Circular relates do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the underwriters or any affiliate of the underwriters is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the underwriters or such affiliate on behalf of us in such jurisdiction.

The Offering Circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently, none of the Arrangers, the Dealers, the Trustee or the Agents (each as defined in the Offering Circular), or any person who controls any of them, or any director, officer, employee, agent, adviser, representative or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Offering Circular distributed to you in electronic format and the hard copy version available to you on request from the Arrangers and/or the Dealers.

You are responsible for protecting against viruses and other destructive items. Your use of this electronic mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

WESTWOOD GROUP HOLDINGS LIMITED 卓裕控股有限公司

(incorporated in Hong Kong with limited liability)

(as Issuer)

US\$3,000,000,000 Guaranteed Medium Term Note Programme

Guaranteed by



越秀地產股份有限公司

YUEXIU PROPERTY COMPANY LIMITED

YUEXIU PROPERTY COMPANY LIMITED

越秀地產股份有限公司

(incorporated in Hong Kong with limited liability)

(HKSE Stock Code: 00123)

(as Guarantor)

Under the US\$3,000,000,000 Guaranteed Medium Term Note Programme described in this Offering Circular (the "Programme"), Westwood Group Holdings Limited 卓裕控股有限公司 (the "Issuer"), subject to compliance with all relevant laws, regulations and directives, may from time to time issue medium term notes (the "Notes") unconditionally and irrevocably guaranteed (the "Guarantee") by Yuexiu Property Company Limited 越秀地產股份有限公司 (the "Guarantor" or the "Company"). The Issuer is an indirect wholly owned subsidiary of the Company. The aggregate principal amount of Notes outstanding under the Programme will not at any time exceed US\$3,000,000,000 (or its equivalent in other currencies, subject to increase as may be approved by the Issuer and the Guarantor and pursuant to the relevant provisions of the Dealer Agreement (as defined in "Subscription and Sale").

The Notes may be issued on a continuing basis to one or more of the Dealers specified under "Summary of the Programme" and/or any additional Dealer appointed under the Programme from time to time by the Issuer and the Guarantor, which appointment may be for a specific issue or on an ongoing basis. References in this Offering Circular to the "Relevant Dealer" shall, in the case of an issue of Notes being (or intended to be) subscribed for by more than one Dealer, be to all Dealers agreeing to subscribe for such Notes.

Application has been made to The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange" or "HKSE") for the listing of the Programme by way of debt securities to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) ("Professional Investors") only during the 12-month period from the date of this Offering Circular on the Hong Kong Stock Exchange. This document is for distribution to Professional Investors only.

Notice to Hong Kong investors: The Issuer and the Guarantor confirm that the Notes are intended for purchase by Professional Investors only and will be listed on the Hong Kong Stock Exchange on that basis. Accordingly, the Issuer and the Guarantor confirm that the Notes are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.

The Hong Kong Stock Exchange has not reviewed the contents of this Offering Circular, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this Offering Circular to Professional Investors only have been reproduced in this Offering Circular. Listing of the Programme and the Notes on the Hong Kong Stock Exchange is not to be taken as an indication of the commercial merits or credit quality of the Programme, the Notes, the Issuer or the Guarantor or quality of disclosure in this document. Hong Kong Exchanges and Clearing Limited and the Hong Kong Stock Exchange take no responsibility for the contents of this Offering Circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Offering Circular.

However, unlisted Notes may be issued pursuant to the Programme. The relevant Pricing Supplement in respect of the issue of any Notes will specify whether or not such Notes will be listed on the Hong Kong Stock Exchange (or any other stock exchange).

Where the Circular on Promoting the Reform of the Filings and Registration System for Issuance of Foreign Debt by Enterprises (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知 (發改外資[2015]2044號)) (the "NDRC Circular") issued by the National Development and Reform Commission of the People's Republic of China (the "PRC") (the "NDRC") and which came into effect on 14 September 2015 and any implementation rules, regulations, certificates, circulars, notices or policies in connection therewith as issued by the NDRC apply, the Guarantor will complete or cause to be completed the registration of the relevant Tranche of Notes with the NDRC or its local counterpart pursuant to the NDRC Circular. Following the issuance of the relevant Tranche of Notes, the Guarantor shall, within the prescribed timeframe after the Issue Date of such Tranche of Notes, file or cause to be filed with the NDRC or its local counterpart the requisite information and documents in accordance with the NDRC Circular and comply with all applicable PRC laws and regulations in connection therewith.

Investing in the Notes involves risks. See "Risk Factors" beginning on page 10.

Notes may be issued in bearer or registered form. The Notes of each Series issued in bearer form (the "Bearer Notes") will be represented on issue by a temporary global note in bearer form (each a "Temporary Global Note") or a permanent global note in bearer form (each a "Permanent Global Note") (collectively, the "Global Notes"). Notes in registered form (the "Registered Notes") will be represented by registered certificates (each a "Certificate"), one Certificate being issued in respect of each Noteholder's (as defined under "Terms and Conditions of the Notes") entire holding of Notes in registered form of one Series. Certificates representing Registered Notes that are registered in the name of, or in the name of a nominee of a common depository for, one or more clearing systems are referred to as global certificates ("Global Certificates"). Global Notes and Global Certificates may be deposited on the relevant issue date with, or with a nominee of, a common depository on behalf of Euroclear Bank S.A./NV ("Euroclear") and/or Clearstream Banking S.A. ("Clearstream"), or with a sub-custodian for the Central Money Markets Unit Service (the "CMU Service" or the "CMU") operated by the Hong Kong Monetary Authority. The provisions governing the exchange of interests in Global Notes for other Global Notes and definitive Notes and the exchange of interests in Global Certificates for individual Certificates are described in "Summary of Provisions Relating to the Notes while in Global Form".

The Programme is rated "BBB-" by Fitch Ratings Inc. ("Fitch") and "Baa3" by Moody's Investors Service Hong Kong Limited ("Moody's"). These ratings are only correct as at the date of this Offering Circular. Notes may be rated or unrated. Where an issue of Notes is rated, its rating will not necessarily be the same as any rating applicable to the Programme. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating agency.

The Notes and the Guarantee have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act"), or with any securities regulatory authority of any state or other jurisdiction of the United States, and the Notes may include Bearer Notes that are subject to U.S. tax law requirements. Subject to certain exceptions, the Notes may not be offered, sold, or, in the case of Bearer Notes, delivered within the United States or, in the case of Category 2 (as defined in "Subscription and Sale") offering, to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act). Registered Notes are subject to certain restrictions on transfer, see "Subscription and Sale".

The Issuer and the Guarantor may agree with any Dealer that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes herein, in which event a supplementary Offering Circular, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Notes.

MiFID II product governance / target market — The Pricing Supplement in respect of any Notes may include a legend entitled "MiFID II Product Governance" which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a "distributor") should take into consideration the target market assessment; however, a distributor subject to Directive 2014/65/EU (as amended, "MiFID II") is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the "MiFID Product Governance Rules"), any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise none of the Arrangers or the Dealers (each as defined in "Summary of the Programme") or any of their respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

UK MiFIR product governance/target market — The Pricing Supplement in respect of any Notes may include a legend entitled "UK MiFIR Product Governance" which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a "distributor") should take into consideration the target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the "UK MiFIR Product Governance Rules") is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the UK MiFIR Product Governance Rules, any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise none of the Arrangers or the Dealers (each as defined in "Summary of the Programme") or any of their respective affiliates will be a manufacturer for the purpose of the UK MiFIR Product Governance Rules.

IMPORTANT — EEA RETAIL INVESTORS — If the Pricing Supplement in respect of any Notes includes a legend entitled "Prohibition of Sales to EEA Retail Investors", the Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("EEA"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; (ii) a customer within the meaning of Directive (EU) 2016/97 (the "Insurance Distribution Directive"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (the "Prospectus Regulation"). Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the "PRIIPs Regulation") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

IMPORTANT — UK RETAIL INVESTORS — If the Pricing Supplement in respect of any Notes includes a legend entitled "Prohibition of Sales to UK Retail Investors", the Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom (the "UK"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "EUWA"); (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (the "FSMA") and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA; or (iii) not a qualified investor as defined in Article 2 of the Prospectus Regulation as it forms part of domestic law by virtue of the EUWA (the "UK Prospectus Regulation"). Consequently no key information document required by the PRIIPs Regulation as it forms part of domestic law by virtue of the EUWA (the "UK PRIIPs Regulation") for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

Investing in Notes issued under the Programme involves certain risks and may not be suitable for all investors. Investors should have sufficient knowledge and experience in financial and business matters to evaluate the information contained in this Offering Circular and in the applicable Pricing Supplement and the merits and risks of investing in a particular issue of Notes in the context of their financial condition and particular circumstances. Investors also should have the financial capacity to bear the risks associated with an investment in Notes. Investors should not purchase Notes unless they understand and are able to bear risks associated with the Notes. The principal risk factors that may affect the ability of the Issuer or the Guarantor to fulfil its obligations in respect of the Notes or the Guarantee, as the case may be, are discussed in "Risk Factors".

Arrangers and Dealers

DBS Bank Ltd.
BOC International

CLSA

ABC International
CCB International

Bank of China (Hong Kong)
China International Capital
Corporation

Chong Hing Bank

CMB International

CMBC Capital

Guotai Junan International

Haitong International

Yue Xiu Securities

The date of this Offering Circular is 8 January 2021

This Offering Circular includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Issuer, the Guarantor and their respective subsidiaries taken as a whole (collectively, the “**Group**”). The Issuer and the Guarantor accept full responsibility for the accuracy of the information contained in this Offering Circular and confirm, having made all reasonable inquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

Each of the Issuer and the Guarantor confirms, having made all reasonable inquiries, that (i) this document contains all information with respect to the Issuer, the Guarantor and the Group and to the Notes and the Guarantee which is material in the context of the issue and offering of the Notes and the giving of the Guarantee; (ii) the statements relating to the Issuer, the Guarantor and the Group contained in this Offering Circular are in every material respect true and accurate and not misleading; (iii) the opinions and intentions expressed in this Offering Circular with regard to the Issuer, the Guarantor and the Group are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions; (iv) there are no other facts in relation to the Issuer, the Guarantor, the Group, the Notes or the Guarantee, the omission of which would, in the context of the issue and offering of the Notes or the giving of the Guarantee, make any statement in this Offering Circular misleading in any material respect; and (v) all reasonable enquiries have been made by the Issuer and the Guarantor to ascertain such facts and to verify the accuracy of all such information.

Each Tranche (as defined herein) of Notes will be issued on the terms set out herein under “**Terms and Conditions of the Notes**” (the “**Conditions**”) as amended and/or supplemented by the Pricing Supplement specific to such Tranche. This Offering Circular must be read and construed together with any amendments or supplements hereto and with any information incorporated by reference herein and, in relation to any Tranche of Notes, must be read and construed together with the relevant Pricing Supplement.

The distribution of this Offering Circular and any Pricing Supplement and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer, the Guarantor, the Arrangers and the Dealers to inform themselves about and to observe any such restrictions. None of the Issuer, the Guarantor, the Arrangers, the Dealers, the Trustee (as defined in the Conditions) or the Agents (as defined in the Conditions) or any of their respective directors, officers, employees, agents, advisers, representatives or affiliates or any person who controls any of them represents that this Offering Circular or any Pricing Supplement may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Guarantor, the Arrangers, the Dealers, the Trustee or the Agents or any of their respective directors, officers, employees, agents, advisers, representatives or affiliates or any person who controls any of them which would permit a public offering of any Notes or distribution of this Offering Circular or any Pricing Supplement in any jurisdiction where action for such purposes is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and none of this Offering Circular, any Pricing Supplement or any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations.

There are restrictions on the offer and sale of the Notes and the circulation of documents relating thereto, in certain jurisdictions including, but not limited to, the United States, the European Economic Area, the United Kingdom, Hong Kong, the PRC, Japan and Singapore, and to persons connected therewith. The Notes and the Guarantee have not been and will not be registered under the Securities Act, or with any securities regulatory authority of any state or other jurisdiction of the United States and may include Notes in bearer form that are subject to U.S. tax law requirements. Subject to certain exceptions, the Notes may not be offered, sold or, in the case of bearer notes, delivered within the United States or,

in the case of Category 2 offering, to, or for the account or benefit of, U.S. persons. The Notes and the Guarantee are being offered and sold outside the United States in reliance on Regulation S under the Securities Act. For a description of certain restrictions on offers, sales and transfers of Notes and on the distribution of this Offering Circular and any applicable Pricing Supplement, see “**Subscription and Sale**”.

Singapore SFA Product Classification: In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the “SFA”) and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the “CMP Regulations 2018”), unless otherwise specified before an offer of Notes, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are ‘prescribed capital markets products’ (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

This Offering Circular is to be read in conjunction with all documents which are deemed to be incorporated herein by reference. See “**Information Incorporated by Reference**”. This Offering Circular shall be read and construed on the basis that such documents are incorporated and form part of this Offering Circular.

Neither the Issuer nor the Guarantor has authorised any person to give any information or to make any representation not contained in or not consistent with this Offering Circular or any other document entered into in relation to the Programme and the sale of Notes and, if given or made, such information or representation should not be relied upon as having been authorised by the Issuer, the Guarantor, any Dealer, any Arranger, the Trustee or the Agents or any of their respective directors, officers, employees, agents, advisers, representatives or affiliates or any person who controls any of them.

Neither the delivery of this Offering Circular or any Pricing Supplement nor the offering, sale or delivery of any Note shall, in any circumstances, create any implication that the information contained in this Offering Circular is true subsequent to the date hereof or the date upon which this Offering Circular has been most recently amended or supplemented or that there has been no adverse change, or any event reasonably likely to involve any material adverse change, in the prospects, financial or trading position of the Issuer, the Guarantor or the Group since the date thereof or, if later, the date upon which this Offering Circular has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

Neither this Offering Circular nor any Pricing Supplement constitutes an offer or an invitation to subscribe for or purchase any Notes and should not be considered as a recommendation by the Issuer, the Guarantor, the Arrangers, the Dealers, the Trustee or any Agent or any director, officer, employee, agent, adviser, representative or affiliate of any such person or any person who controls any of them that any recipient of this Offering Circular or any Pricing Supplement should subscribe for or purchase any Notes. Each recipient of this Offering Circular or any Pricing Supplement shall be taken to have made its own investigation and appraisal of the condition (financial or otherwise) of the Group. In making an investment decision, investors must rely on their own examination of the Issuer, the Guarantor, the Group and the terms of the offering, including the merits and risks involved. See “**Risk Factors**” for a discussion of certain factors to be considered in connection with an investment in the Notes.

The maximum aggregate principal amount of Notes outstanding at any one time under the Programme will not exceed US\$3,000,000,000 (or its equivalent in other currencies). The maximum aggregate principal amount of Notes which may be outstanding at any one time under the Programme may be increased from time to time, subject to compliance with the relevant provisions of the Dealer Agreement.

In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the stabilising manager(s) (the “Stabilising Manager”) in the applicable Pricing Supplement (or persons acting on behalf of any Stabilising Manager(s)) may over-allot the Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may be discontinued at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or any person acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

None of the Arrangers, the Dealers, the Trustee or the Agents or any director, officer, employee, agent, adviser, representative or affiliate of any such person or any person who controls any of them has separately verified the information contained in this Offering Circular. To the fullest extent permitted by law, none of the Arrangers, the Dealers, the Trustee or the Agents or any director, officer, employee, agent, adviser, representative or affiliate of any such person or any person who controls any of them, makes any representation, warranty or undertaking, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information in this Offering Circular. To the fullest extent permitted by law, none of the Arrangers, the Dealers, the Trustee or the Agents or any director, officer, employee, agent, adviser, representative or affiliate of any such person or any person who controls any of them, accept any responsibility for the contents of this Offering Circular or for any other statement made or purported to be made by or on behalf of the Arrangers, the Dealers, the Trustee or the Agents or any director, officer, employee, agent, adviser, representative or affiliate of any such person or any person who controls any of them or in connection with the Issuer, the Guarantor, the Group or the issue and offering of the Notes or the giving of the Guarantee. Each of the Arrangers, the Dealers, the Trustee and the Agents and each of their respective directors, officers, employees, agents, advisers, representatives and affiliates and each person who controls any of them accordingly disclaim all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Offering Circular or any such statement.

This Offering Circular does not describe all of the risks and investment considerations (including those relating to each investor’s particular circumstances) of an investment in Notes of a particular issue. Each potential purchaser of Notes should refer to and consider carefully the relevant Pricing Supplement for each particular issue of Notes, which may describe additional risks and investment considerations associated with such Notes. The risks and investment considerations identified in this Offering Circular and the applicable Pricing Supplement are provided as general information only. Investors should consult their own financial and legal advisors as to the risks and investment considerations arising from an investment in an issue of Notes and should possess the appropriate resources to analyse such investment and the suitability of such investment in their particular circumstances.

Neither this Offering Circular nor any other information provided or incorporated by reference in connection with the Programme are intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer, the Guarantor, the Arrangers, the Dealers, the Trustee or the Agents or any director, officer, employee, agent, adviser, representative or affiliate of any such person or any person who controls any of them that any recipient, of this Offering Circular or of any such information, should purchase the Notes. Each potential purchaser of Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer, the Guarantor and the Group. Each potential purchaser of Notes should determine for itself the relevance of the information contained in this Offering Circular and the relevant Pricing Supplement, and its purchase of Notes should be based upon such investigation as it deems necessary. None of the Arrangers, the Dealers, the Trustee or the Agents, or any director, officer, employee, agent, adviser, representative or affiliate of any such person or any person who controls any of them undertakes to review the financial condition or affairs of the Issuer, the Guarantor or the Group during the life of the arrangements contemplated by this Offering Circular nor to advise any investor or potential investor in the Notes of any information coming to the attention of any of the Arrangers, the Dealers, the Trustee or the Agents or any director, officer, employee, agent, adviser, representative or affiliate of any such person or any person who controls any of them.

CERTAIN DEFINITIONS AND CONVENTIONS

In this Offering Circular, where information has been presented in thousands or millions of units, amounts may have been rounded up or down. Accordingly, totals of columns or rows of numbers in tables may not be equal to the apparent total of the individual items and actual numbers may differ from those contained herein due to rounding.

In this Offering Circular, unless otherwise specified or the context otherwise requires, all references to “**US\$**”, “**US dollars**” and “**U.S. dollars**” are to the lawful currency of the United States of America; all references to “**HK\$**” and “**Hong Kong dollars**” are to the lawful currency of Hong Kong; all references to “**£**” are to the lawful currency of the United Kingdom; all references to “**euro**” and “**€**” are to the currency introduced at the start of the third stage of European economic and monetary union, and as defined in Article 2 of Council Regulation (EC) No. 974/98 of 3 May 1998 on the introduction of the euro, as amended; all references to “**Renminbi**” and “**RMB**” are to the lawful currency of the PRC; all references to “**United States**”, “**US**” or “**U.S.**” are to the United States of America; all references to “**China**”, “**Mainland China**” and the “**PRC**” mean the People’s Republic of China and for geographical reference only (unless otherwise stated) exclude Taiwan, Macau and Hong Kong; all references to “**PRC Government**” mean the central, provincial, municipal and local government entities of the PRC; all references to “**Hong Kong**” are to the Hong Kong Special Administrative Region of the PRC; all references to “**Macau**” are to the Macao Special Administrative Region of the PRC; all references to “**United Kingdom**” are to the United Kingdom of Great Britain and Northern Ireland; and all references to “**Singapore**” are to the Republic of Singapore.

In this Offering Circular, all references to “we”, “our” and “us” are to the Guarantor, and where the context indicates, include its subsidiaries.

FORWARD LOOKING STATEMENTS

Certain statements under “**Risk Factors**”, “**Business**” and elsewhere in this Offering Circular constitute “forward looking statements”. The words including “aim”, “anticipate”, “believe”, “estimate”, “expect”, “forecast”, “predict”, “plan”, “schedule”, “should”, “will” and their negatives or similar words or expressions identify forward looking statements. In addition, all statements other than statements of historical facts included in this Offering Circular, including, but without limitation, those regarding the financial condition, business strategy, prospects, capital expenditure and investment plans of the Group and the plans and objectives of the Group’s management for its future operations (including development plans and objectives relating to the Group’s operations), are forward looking statements. Such forward looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results or performance of the Group to differ materially from those expressed or implied by such forward looking statements. Such forward looking statements are based on numerous assumptions regarding the Group’s present and future business strategies and the environment in which the Group will operate in the future. Each of the Issuer and the Guarantor expressly disclaims any obligation or undertaking to release any updates or revisions to any forward looking statements contained herein to reflect any change in the Issuer’s, the Guarantor’s or the Group’s expectations with regard thereto or any change of events, conditions or circumstances, on which any such statements were based. This Offering Circular discloses, under “**Risk Factors**” and elsewhere, important factors that could cause actual results to differ materially from the Issuer’s or the Guarantor’s expectations. All subsequent written and forward looking statements attributable to the Issuer or the Guarantor or persons acting on behalf of any of them are expressly qualified in their entirety by such cautionary statements.

INFORMATION INCORPORATED BY REFERENCE

This Offering Circular should be read and construed in conjunction with (i) each relevant Pricing Supplement, (ii) the most recently published audited annual consolidated financial statements of the Company, (iii) any interim financial statements (whether audited or unaudited) published subsequently to the annual consolidated financial statements of the Company from time to time (if any) and (iv) all amendments and supplements from time to time to this Offering Circular, which shall be deemed to be incorporated in, and to form part of, this Offering Circular and which shall be deemed to modify or supersede the contents of this Offering Circular to the extent that a statement contained in any such document is inconsistent with such contents.

Copies of all such documents which are so deemed to be incorporated in, and to form part of, this Offering Circular will be available free of charge at all reasonable times during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) from the specified office of the Issuing and Paying Agent (as defined under “**Summary of the Programme**”) set out at the end of this Offering Circular upon prior written request and satisfactory proof of holding and subject to the Issuing and Paying Agent having been provided with copies of such documents by the Issuer.

The audited consolidated financial statements of the Company as at and for the years ended 31 December 2018 and 2019 and the unaudited but reviewed condensed consolidated financial statements of the Company as at and for the six months ended 30 June 2020 have been included in this Offering Circular. See “**Index to Financial Statements**”. These consolidated financial statements of the Company were prepared in conformity with Hong Kong Financial Reporting Standards (“**HKFRS**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”).

The Issuer is a public company (as defined in the Companies Ordinance (Cap. 622) of Hong Kong (the “**Companies Ordinance**”)) and publishes its annual audited financial statements in accordance with the requirement of the Companies Ordinance.

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SUMMARY OF THE PROGRAMME

This summary must be read as an introduction to this Offering Circular and any decision to invest in the Notes should be based on a consideration of the Offering Circular as a whole, including any information incorporated by reference. Words and expressions defined in the “Terms and Conditions of the Notes” below or elsewhere in this Offering Circular have the same meanings in this summary.

Issuer	Westwood Group Holdings Limited 卓裕控股有限公司.
Guarantor	Yuexiu Property Company Limited 越秀地產股份有限公司.
Description	Guaranteed Medium Term Note Programme.
Programme Size	Up to US\$3,000,000,000 (or the equivalent in other currencies calculated as described in the Dealer Agreement) aggregate principal amount of Notes outstanding at any time. The Issuer and the Guarantor may increase the amount of the Programme in accordance with the relevant terms of the Dealer Agreement.
Risk Factors	Investing in Notes issued under the Programme involves certain risks. The principal risk factors that may affect the abilities of the Issuer and the Guarantor to fulfil their respective obligations in respect of the Notes and the Guarantee are discussed under “ Risk Factors ”.
Arrangers	DBS Bank Ltd., CLSA Limited, ABCI Capital Limited, Bank of China (Hong Kong) Limited, BOCI Asia Limited, CCB International Capital Limited, China International Capital Corporation Hong Kong Securities Limited, Chong Hing Bank Limited, CMB International Capital Limited, CMBC Securities Company Limited, Guotai Junan Securities (Hong Kong) Limited, Haitong International Securities Company Limited and Yue Xiu Securities Company Limited.
Dealers	<p>DBS Bank Ltd., CLSA Limited, ABCI Capital Limited, Bank of China (Hong Kong) Limited, BOCI Asia Limited, CCB International Capital Limited, China International Capital Corporation Hong Kong Securities Limited, Chong Hing Bank Limited, CMB International Capital Limited, CMBC Securities Company Limited, Guotai Junan Securities (Hong Kong) Limited, Haitong International Securities Company Limited and Yue Xiu Securities Company Limited.</p> <p>The Issuer and the Guarantor may from time to time terminate the appointment of any Dealer under the Programme or appoint Dealers either in respect of one or more Tranches or in respect of the whole Programme. References in this Offering Circular to “Dealers” are to all persons appointed as a Dealer in respect of one or more Tranches or the Programme.</p>
Trustee	DB Trustees (Hong Kong) Limited.
Issuing and Paying Agent	Deutsche Bank AG, Hong Kong Branch.
CMU Lodging and Paying Agent	Deutsche Bank AG, Hong Kong Branch.

Registrar and Transfer Agent

Deutsche Bank AG, Hong Kong Branch.

Method of Issue

The Notes will be issued on a syndicated or non-syndicated basis. The Notes will be issued in series (each a “**Series**”) having one or more issue dates and on terms otherwise identical (or identical other than in respect of the issue date, the first payment of interest and, if applicable, the deadline for submission of the NDRC Post-issue Filing), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. Each Series may be issued in tranches (each a “**Tranche**”) on the same or different issue dates. The specific terms of each Tranche (which will be completed, where necessary, with the relevant terms and conditions and, save in respect of the issue date, the first payment date of interest, and if applicable, the deadline for submission of the NDRC Post-issue Filing, will be identical to the terms of other Tranches of the same Series) will be completed in the Pricing Supplement.

Clearing Systems

Clearstream, Euroclear and/or the CMU Service and, in relation to any Tranche, such other clearing system as may be selected by the Issuer, the Guarantor and the Relevant Dealer and approved in writing by the Trustee, the Issuing and Paying Agent or the CMU Lodging and Paying Agent (as the case may be) and, where relevant, the Registrar.

Form of Notes

Notes may be issued in bearer form (“**Bearer Notes**”) or in registered form (“**Registered Notes**”). Registered Notes will not be exchangeable for Bearer Notes and *vice versa*.

Each Tranche of Bearer Notes will initially be in the form of either a Temporary Global Note or a Permanent Global Note, in each case as specified in the relevant Pricing Supplement.

Each Global Note will be deposited on or around the relevant issue date with, or with a nominee for, a common depository or sub-custodian for Clearstream, Euroclear and/or, as the case may be, the CMU Service and/or any other relevant clearing system. Each Temporary Global Note will be exchangeable for either a Permanent Global Note or for Definitive Notes (as indicated in the applicable Pricing Supplement). If the TEFRA D Rules are specified in the applicable Pricing Supplement, certification as to non U.S. beneficial ownership will be a condition precedent to any exchange of an interest in a Temporary Global Note or receipt of any payment of interest in respect of a Temporary Global Note. Each Permanent Global Note will be exchangeable for Definitive Notes in accordance with its terms. Definitive Notes will, if interest bearing, have Coupons attached and, if appropriate, a Talon for further Coupons.

Registered Notes will be represented by Certificates, one Certificate being issued in respect of each Noteholder’s entire holding of Registered Notes of one Series. Certificates representing Registered Notes that are registered in the name of, or in the name of a nominee for, one or more clearing systems are referred to as “**Global Certificates**”.

Currencies	Notes may be denominated in any currency or currencies, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements. Payments in respect of Notes may, subject to such compliance, be made in and/or linked to, any currency or currencies other than the currency in which such Notes are denominated.
Status of the Notes	The Notes and the Receipts and Coupons relating to them constitute direct, unsubordinated, unconditional, and (subject to Condition 4(a) (<i>Negative Pledge</i>)) unsecured obligations of the Issuer and shall at all times rank <i>pari passu</i> and without any preference among themselves. The payment obligations of the Issuer under the Notes and the Receipts and the Coupons relating to them shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4(a) (<i>Negative Pledge</i>), at all times rank at least equally with all other unsecured and unsubordinated indebtedness and monetary obligations of the Issuer, present and future.
Issue Price	Notes may be issued at their principal amount or at a discount or premium to their principal amount. Partly Paid Notes may be issued, the issue price of which will be payable in two or more instalments.
Maturities	Any maturity, subject, in relation to specific currencies, to compliance with all applicable legal and/or regulatory and/or central bank requirements.
Redemption	Notes may be redeemable at par or at such other Redemption Amount (detailed in a formula, index or otherwise) as may be specified in the relevant Pricing Supplement. Notes may also be redeemable in two or more instalments on such dates and in such manner as may be specified in the relevant Pricing Supplement. Notes having a maturity of less than one year will, if the proceeds of the issue are accepted in the United Kingdom, constitute deposits for the purposes of the prohibition on accepting deposits contained in section 19 of the Financial Services and Markets Act 2000 (“FSMA”) unless they are issued to a limited class of Professional Investors and have a denomination of at least £100,000 or its equivalent, see “ Subscription and Sale ”.
Optional Redemption	Notes may be redeemed before their stated maturity at the option of the Issuer (either in whole or in part) and/or the Noteholders to the extent (if at all) specified in the relevant Pricing Supplement.
Tax Redemption and Change of Control Redemption	Except as described in “Optional Redemption” above, early redemption will only be permitted (i) for tax reasons as described in Condition 6(c) (<i>Redemption, Purchase and Options — Redemption for Taxation Reasons</i>) and (ii) following a Change of Control Put Event as described in Condition 6(e) (<i>Redemption, Purchase and Options — Redemption following Change of Control</i>).

Interest	Notes may be interest bearing or non-interest bearing. Interest (if any) may accrue at a fixed rate or a floating rate or other variable rate or be index linked and the method of calculating interest may vary between the issue date and the maturity date of the relevant Series. All such information will be set out in the relevant Pricing Supplement.
Benchmark Discontinuation	Condition 5(1) (<i>Benchmark Discontinuation</i>) applies.
Denominations	Notes will be issued in such denominations as may be specified in the relevant Pricing Supplement, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements.
Guarantee and Status of Guarantee	The Guarantor has unconditionally and irrevocably guaranteed the due payment of all sums expressed to be payable by the Issuer under the Trust Deed, the Notes, the Receipts and the Coupons. The payment obligations of the Guarantor under the Guarantee shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4(a) (<i>Negative Pledge</i>), at all times rank at least equally with all other unsecured and unsubordinated indebtedness and monetary obligations of the Guarantor, present and future.
Negative Pledge	The Notes will contain a negative pledge provision as further described in Condition 4(a) (<i>Negative Pledge</i>).
Cross Default	The Notes will contain a cross default provision as further described in Condition 10 (<i>Events of Default</i>).
Withholding Tax	All payments of principal, premium (if any) and interest by or on behalf of the Issuer or the Guarantor in respect of the Notes, the Receipts and the Coupons or under the Guarantee shall be made free and clear of, and without set-off or counterclaim and without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the PRC or any political subdivision therein or thereof or Hong Kong or, in each case, any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer or the Guarantor (as the case may be) will (subject to certain customary exceptions as described in Condition 8 (<i>Taxation</i>)) pay such additional amounts as shall result in receipt by the Noteholders and Couponholders of such amounts as would have been received by them had no such withholding or deduction been required.
Listing and Trading	<p>Application has been made to the Hong Kong Stock Exchange for the listing of the Programme during the 12-month period from the date of this Offering Circular on the Hong Kong Stock Exchange by way of debt issues to Professional Investors only.</p> <p>Notes listed on the Hong Kong Stock Exchange will be traded on the Hong Kong Stock Exchange in a board lot size of at least HK\$500,000 (or its equivalent in other currencies).</p>

However, unlisted Notes and Notes to be listed, traded or quoted on or by any other competent authority, stock exchange or quotation system may be issued pursuant to the Programme. The relevant Pricing Supplement in respect of the issue of any Notes will specify whether or not such Notes will be listed on the Hong Kong Stock Exchange or listed, traded or quoted on or by any other competent authority, exchange or quotation system.

Governing Law

The Notes, the Receipts, the Coupons and the Talons and any non-contractual obligations arising out of or in connection with them will be governed by, and construed in accordance with, English law.

Ratings

The Programme is rated “BBB-” by Fitch and “Baa3” by Moody’s. These ratings are only correct as at the date of this Offering Circular. Tranches of Notes to be issued under the Programme may be rated or unrated. Where a Tranche of Notes is to be rated, such rating will not necessarily be the same as any rating assigned to the Programme. Where the Programme or a Tranche of Notes is rated, the applicable rating(s) will be specified in the relevant Pricing Supplement. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Selling Restrictions

For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of offering material in the United States, the European Economic Area, the United Kingdom, Hong Kong, the PRC, Japan and Singapore, see “**Subscription and Sale**”.

The Notes will be issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(D) (the “**D Rules**”) unless (i) the relevant Pricing Supplement states that Notes are issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(C) (the “**C Rules**”) or (ii) the Notes are issued other than in compliance with the D Rules or the C Rules but in circumstances in which the Notes will not constitute “registration required obligations” under the United States Tax Equity and Fiscal Responsibility Act of 1982 (“**TEFRA**”), which circumstances will be referred to in the relevant Pricing Supplement as a transaction to which TEFRA is Not Applicable.

Initial Delivery of Notes

On or before the issue date for each Tranche, the Global Note representing Bearer Notes or the Global Certificate representing Registered Notes may be deposited with a common depository for Euroclear and Clearstream or deposited with a sub-custodian for the CMU Service or any other clearing system or may be delivered outside any clearing system provided that the method of such delivery has been agreed in advance by the Issuer, the Trustee, the Agents and the Relevant Dealers. Registered Notes that are to be credited to one or more clearing systems on issue will be registered in the name of, or in the name of nominees or a common nominee or a sub-custodian for, such clearing systems.

SUMMARY FINANCIAL INFORMATION OF THE COMPANY

The following table presents our summary financial information. Our consolidated financial statements as of and for the years ended 31 December 2018 and 2019 were audited by our independent auditor, PricewaterhouseCoopers, Hong Kong Certified Public Accountants, in accordance with Hong Kong Standards on Auditing issued by Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and prepared in accordance with the Hong Kong Financial Reporting Standards (“HKFRS”). The selected consolidated financial information as at and for the years ended 31 December 2018 and 2019 has been derived from our annual reports for the years ended 31 December 2018 and 2019, including the notes thereto, included elsewhere in this Offering Circular. Our unaudited condensed consolidated financial statements as of and for the six months ended 30 June 2020 were reviewed by our independent auditor, PricewaterhouseCoopers, Hong Kong Certified Public Accountants, in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA and prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”. The condensed consolidated financial statements as of and for the six months ended 30 June 2020 have not been audited and should not be relied upon by potential investors to provide the same quality of information associated with information that has been subject to an audit. Potential investors should exercise caution when using such information to evaluate the Group’s financial condition and results of operations. The selected unaudited condensed consolidated financial information as at and for the six months ended 30 June 2019 and 2020 has been derived from our interim report for the six months ended 30 June 2020, including the notes thereto, included elsewhere in this Offering Circular.

We have adopted HKFRS 16 “Leases” (“HKFRS 16”) with effect from 1 January 2019 and has not restated prior period’s consolidated financial statements. Therefore, our consolidated financial statements as of and for the year ended 31 December 2019 is not comparable with our consolidated financial statements as of and for the year ended 31 December 2018. For the impact on the adoption of HKFRS 16, please refer to note 2.2 to our annual report for the year ended 31 December 2019.

In addition, our historical financial information should not be taken as an indication of future financial performance.

Consolidated Income Statement Data

	Year ended 31 December		Six months ended 30 June	
	2018	2019	2019	2020
	RMB’000	RMB’000	RMB’000	RMB’000
	<i>(audited)</i>		<i>(Unaudited but reviewed)</i>	
Revenue	26,433,444	38,339,112	21,788,127	23,713,884
Cost of sales	(18,040,522)	(25,221,725)	(15,241,498)	(17,071,363)
Gross profit.....	8,392,922	13,117,387	6,546,629	6,642,521
Proceeds from sales of investment properties..	96,428	137,487	29,572	7,346
Direct costs of investment properties sold	(93,753)	(103,511)	(17,736)	(6,663)
Gain on sales of investment properties	2,675	33,976	11,836	683
Fair value gains/(losses) on revaluation of investment properties, net.....	370,875	(23,434)	(16,232)	(18,042)
Other gains, net	1,039,814	799,285	797,544	10,577
Selling and marketing costs	(650,513)	(999,568)	(418,474)	(498,674)
Administrative expenses.....	(1,045,130)	(1,234,510)	(600,574)	(561,070)
Operating profit	8,110,643	11,693,136	6,320,729	5,575,995
Finance income	169,665	382,497	258,670	326,745
Finance costs	(2,002,121)	(1,160,942)	(634,102)	(505,379)
Share of profit/(loss) of				
— joint ventures.....	58,466	12,037	(57,691)	(45,201)
— associated entities	446,749	486,318	345,898	54,964
Profit before taxation	6,783,402	11,413,046	6,233,504	5,407,124
Taxation	(3,743,909)	(6,682,538)	(3,474,386)	(3,109,908)
Profit for the year/period	<u>3,039,493</u>	<u>4,730,508</u>	<u>2,759,118</u>	<u>2,297,216</u>
Attributable to				
Equity holders of the Company	2,727,885	3,483,351	1,870,140	1,994,723
Non-controlling interests	311,608	1,247,157	888,978	302,493
	<u>3,039,493</u>	<u>4,730,508</u>	<u>2,759,118</u>	<u>2,297,216</u>
Earnings per share for profit attributable to equity holders of the Company (expressed in RMB per share)				
— Basic and diluted.....	<u>0.2200</u>	<u>0.2410</u>	<u>0.1393</u>	<u>0.1288</u>

Consolidated Balance Sheet Data

	As at 31 December		As at 30 June
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
		(audited)	(Unaudited but reviewed)
ASSETS			
Non-current assets			
Property, plant and equipment	1,994,812	2,505,924	2,618,909
Right-of-use assets	—	4,065,788	4,029,069
Investment properties	10,865,470	9,438,108	9,428,580
Intangible assets	—	85,995	90,976
Land use rights	207,569	—	—
Properties under development	—	11,532,544	11,614,298
Interests in joint ventures	6,473,872	7,162,021	6,498,412
Interests in associated entities	13,912,313	12,830,629	11,984,134
Financial assets at fair value through other comprehensive income	1,228,635	1,293,264	1,227,266
Derivative financial instruments	9,069	65,179	63,293
Deferred tax assets	492,137	665,128	814,830
	<u>35,183,877</u>	<u>49,644,580</u>	<u>48,369,767</u>
Current assets			
Properties under development	73,069,099	125,407,543	121,394,144
Properties held for sale	10,164,536	13,446,673	13,740,233
Contract costs	334,697	481,320	473,587
Prepayments for land use rights	4,862,699	3,086,312	4,974,226
Trade receivables	50,916	68,309	99,970
Other receivables, prepayments and deposits	16,223,088	9,956,283	12,806,380
Prepaid taxation	1,772,324	2,416,865	3,099,498
Derivative financial instruments	—	—	166,607
Charged bank deposits	5,168,750	6,083,829	8,260,469
Cash and cash equivalents	21,990,512	24,105,541	21,900,590
	<u>133,636,621</u>	<u>185,052,675</u>	<u>186,915,704</u>
LIABILITIES			
Current liabilities			
Trade and note payables	1,407,577	2,432,898	1,784,701
Contract liabilities	31,637,956	41,942,500	37,680,959
Other payables and accrued charges	29,371,429	47,665,154	48,830,036
Borrowings	5,786,145	7,138,023	10,649,632
Lease liabilities	—	114,542	140,680
Derivative financial instruments	—	1,347	—
Taxation payable	4,425,962	7,623,170	8,516,010
	<u>72,629,069</u>	<u>106,917,634</u>	<u>107,602,018</u>
Net current assets	<u>61,007,552</u>	<u>78,135,041</u>	<u>79,313,686</u>
Total assets less current liabilities	<u>96,191,429</u>	<u>127,779,621</u>	<u>127,683,453</u>
Non-current liabilities			
Borrowings	47,619,960	63,883,633	60,776,875
Lease liabilities	—	563,665	525,044
Deferred tax liabilities	5,604,127	6,911,015	6,915,982
Deferred revenue	55,624	53,829	52,932
Other payables and accrued charges	—	1,175,663	1,486,773
	<u>53,279,711</u>	<u>72,587,805</u>	<u>69,757,606</u>
Net assets	<u>42,911,718</u>	<u>55,191,816</u>	<u>57,925,847</u>

	As at 31 December		As at 30 June
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
	<i>(audited)</i>		<i>(Unaudited but reviewed)</i>
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	12,759,402	18,035,015	18,035,015
Shares held under share award scheme	(55,220)	(81,577)	(81,577)
Other reserves	455,671	567,349	619,282
Retained earnings	20,666,714	22,202,721	23,248,084
	33,826,567	40,723,508	41,820,804
Non-controlling interests	9,085,151	14,468,308	16,105,043
Total equity	42,911,718	55,191,816	57,925,847

Consolidated Statement of Cash Flows

	Year ended 31 December		Six months ended 30 June	
	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
	<i>(audited)</i>		<i>(Unaudited but reviewed)</i>	
Net cash generated from/(used in) operating activities	10,230,075	6,369,773	(291,151)	205,389
Net cash used in investing activities	(3,537,957)	(20,169,462)	(11,038,520)	(3,303,641)
Net cash (used in)/generated from financing activities	(1,397,878)	15,896,171	13,853,276	873,679
Increase/(decrease) in cash and cash equivalents	5,294,240	2,096,482	2,523,605	(2,224,573)
Cash and cash equivalents at the beginning of year/period	16,655,248	21,990,455	21,990,455	24,105,500
Exchange gain/(loss) on cash and cash equivalents	40,967	18,563	(9,791)	19,619
Cash and cash equivalents at the end of year/period	21,990,455	24,105,500	24,504,269	21,900,546
Analysis of balances of cash and cash equivalents				
Bank balances and cash	21,990,512	24,105,541	24,504,308	21,900,590
Bank overdrafts	(57)	(41)	(39)	(44)

Other Financial data

	As at and for the year ended 31 December		As at and for the six months ended 30 June	
	2018	2019	2019	2020
EBITDA ⁽¹⁾ (RMB'000)	8,736,746	12,319,684	6,561,897	5,960,130
EBITDA/Gross interest ⁽²⁾	2.30	3.12	3.59	2.73
Total Debt/EBITDA ⁽³⁾	6.11	5.76	9.91	11.98
Net Debt/EBITDA ⁽⁴⁾	3.00	3.31	5.10	6.92
Total Debt/Equity ⁽⁵⁾	1.24	1.29	1.24	1.23
Net Debt/Equity ⁽⁵⁾	0.61	0.74	0.64	0.71
Total Debt/Capitalisation ⁽⁶⁾	0.89	0.87	0.89	0.86
Net Debt/Capitalisation ⁽⁶⁾	0.44	0.50	0.46	0.50

Notes:

- (1) EBITDA is calculated as profit for the year/period plus income tax expense, depreciation and amortisation, finance costs, cash dividend from joint venture/associated entities, less: (i) share of profit of joint ventures; (ii) share of profit of associated entities; (iii) foreign exchange loss; (iv) fair value losses on revaluation of investment properties; and (v) finance income. EBITDA is not a standard measure under HKFRS. EBITDA is a widely used financial indicator of a company's ability to service and incur debt. EBITDA should not be considered in isolation or construed as an alternative to cash flows, profit or any other measure of performance or as an indicator of the Company's operating performance, liquidity, profitability or cash flows. EBITDA does not account for taxes, interest expense or other non-operating cash expenses. In evaluating EBITDA, the Company believes that investors should consider, among other things, the components of EBITDA and the amount by which EBITDA exceeds capital expenditures and other charges. The Company has included EBITDA in this Offering Circular because it believes it is a useful supplement to cash flow data as a measure of the Company's performance and its ability to generate cash flow from operations to service debt and pay taxes. EBITDA presented in this Offering Circular may not be comparable to similarly titled measures presented by other companies because not all companies use the same definition.

The following table reconciles the Company's profit for the year/period under HKFRS to its definition of EBITDA for the periods indicated.

	Year ended 31 December		Six months ended 30 June	
	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Profit for the year/period	3,039,493	4,730,508	2,759,118	2,297,216
Add:				
Income tax expenses	3,743,909	6,682,538	3,474,386	3,109,908
Depreciation & amortisation	64,972	210,027	120,028	151,771
Finance costs.....	2,002,121	1,160,942	634,102	505,379
Cash dividend from associated entities	278,860	380,771	156,547	228,945
Less:				
Share of profit/(loss) of joint ventures.....	58,466	12,037	(57,691)	(45,201)
Share of profit of associated entities.....	446,749	486,318	345,898	54,964
Foreign exchange (loss)/gain.....	(653,146)	(12,316)	51,639	14,623
Fair value gains/(losses) on revaluation of investment properties.....	370,875	(23,434)	(16,232)	(18,042)
Finance income	169,665	382,497	258,670	326,745
EBITDA	8,736,746	12,319,684	6,561,897	5,960,130

- (2) Gross interest includes finance costs and capitalised interest.
- (3) Total Debt/EBITDA is calculated by dividing Total Debt as at 31 December 2018 and 2019, and at 30 June 2019 and 2020, respectively by EBITDA for the years ended 31 December 2018 and 2019, and the six months ended 30 June 2019 and 2020 respectively. Total Debt equals current and non-current borrowings.
- (4) Net Debt/EBITDA is calculated by dividing Net Debt as at 31 December 2018 and 2019, and at 30 June 2019 and 2020, respectively by EBITDA for the years ended 31 December 2018 and 2019, and the six months ended 30 June 2019 and 2020, respectively. Net Debt equals Total Debt less cash and cash equivalents and charged bank deposits.
- (5) Equity means total equity.
- (6) Capitalisation equals Net Debt add total equity less non-controlling interests.

RISK FACTORS

Any investment in the Notes involves a high degree of risk. You should consider carefully the following information about the risks described below, together with the other information contained in this Offering Circular before making an investment decision. If any of the following risks actually occur, our business, financial condition, results of operations, profitability, future prospects or cash flow could be materially and adversely affected. Additional risks or uncertainties not presently known to us, or which we currently deem to be immaterial, may also materially and adversely affect our business operations. We cannot assure you that any of the events discussed in the risk factors below will not occur and if such events do occur, you may lose all or part of your original investment in the Notes.

Risks Relating to the Group and its Business

We are heavily dependent on the performance of the PRC property sector, particularly in Guangdong Province and other regions where we operate and intend to operate.

A substantial portion of our business operation is located in Guangdong Province and we have also made efforts to expand our business in other major cities in the Guangdong-Hong Kong-Macau Greater Bay Area (the “**Greater Bay Area**”), as well as other regions in the PRC. We derive a substantial portion of our revenue and operating profits from our property development and property investment in the PRC and are consequently dependent on the general performance of the PRC property markets, in particular, Guangdong Province.

Therefore, our business will be significantly affected by the state of the property market in the PRC. The real estate market may be affected by local, regional, national and global factors beyond our control, such as speculative activities, financial crisis, government policies, natural disasters, epidemics, pandemics and hostilities, among others. Although demand for residential and commercial properties in the PRC grew rapidly in recent years, we cannot assure you that the real estate market in provinces and cities where we have undertaken, or will undertake, property projects will continue to grow or that market downturns will not occur. Any adverse developments in the supply and demand or in property prices in the PRC would have a material adverse effect on our business, financial condition and results of operations. In addition, the future demand for different types of properties is uncertain. If we do not respond to changes in market conditions or customer preferences in a timely manner, our results of operations may be adversely affected. We cannot assure you that our property development and property investment will continue at past levels or that we will be able to benefit from the future growth, if any, of the property markets in Guangdong Province or other parts of the PRC.

The PRC property sector is subject to numerous regulatory restrictions that may restrict our ability to raise capital.

Various regulations and measures implemented by the PRC government restrict our ability to raise capital through external financing and other methods, including, without limitation, the following:

- the People’s Bank of China (the “**PBOC**”) has adjusted the RMB deposit-reserve ratio several times since 2010 and has recently published the targeted reserve requirement ratio cut policy for inclusive financing in September 2017;
- the PBOC has adjusted the benchmark one-year bank lending rate since 2008;
- we cannot pre-sell uncompleted units in a project prior to achieving certain development milestones;

- commercial banks and trust financing companies in the PRC are prohibited from extending loans to property developers to finance land grant premium;
- a minimum percentage of 20 per cent. of the estimated total investment in a property project is required to be funded by the property developer's own capital;
- commercial banks and trust financing companies in the PRC are prohibited from extending loans to a development project that fails to obtain the land use rights certificate, construction land planning permit, construction works planning permit and construction works commencement permit for that project;
- commercial banks and trust financing companies in the PRC are restricted from granting loans for the development of luxury residential properties;
- commercial banks in the PRC are prohibited from extending any existing loans, granting any new loans or revolving credit facilities in any form to property developers with non-compliance records regarding, among other things, holding and speculating idle lands, changing the land use to that outside the scope of the designated purpose, postponing construction commencement or completion, hoarding properties and rigging price for properties;
- property developers are in principle prohibited from using the borrowings obtained from a local bank to fund property developments outside the region where that bank is located; and
- commercial banks in the PRC are prohibited from accepting commodity properties of property developers that have been vacant for more than three years as collateral for loans.

In addition, the PBOC regulates the reserve requirement ratio for commercial banks in the PRC, which affects the availability and cost of financing from them. The PBOC adjusted the bank reserve requirement ratio twice in 2012, twice in 2014, five times in 2015. The reserve requirement ratio for commercial banks currently ranges from 13 per cent. to 16 per cent. We cannot assure you that the PRC government will not introduce other measures which may limit our access to capital resource. The foregoing and other governmental actions and policy initiatives may limit our flexibility and ability to use existing or future bank loans or other forms of financing, including corporate bonds, trust financing, asset-backed securities programs and financings from other financial institutions to finance our property developments and therefore may require us to maintain a relatively high level of internally sourced cash. As a result, our business, financial condition and results of operation may be materially and adversely affected.

The PRC government has also implemented restrictions on the ability of PRC property developers to obtain offshore financing, which could affect our ability to deploy the funds raised offshore in our business in the PRC. On 23 May 2007, the Ministry of Commerce (“MOFCOM”) and the State Administration of Foreign Exchange (“SAFE”) jointly promulgated the Notice on Further Strengthening and Regulating the Approval and Supervision of Foreign Direct Investment in the Real Estate Industry (《關於進一步加強、規範外商直接投資房地產業審批和監管的通知》), which provides that foreign invested real estate enterprises approved to be incorporated by the competent local authority shall promptly complete required filings with the MOFCOM. These regulations effectively restrict our ability to fund our PRC subsidiaries by way of shareholder loans. Pursuant to the Guidelines for Administration over Foreign Debt Registration (《外債登記管理操作指引》) promulgated by SAFE on 28 April 2013 and effective from 13 May 2013 and amended on 4 May 2015, real estate enterprises with foreign investment approved by local MOFCOM branches and filed with the MOFCOM after (and including) 1 June 2007 are not allowed to register foreign debt contracts with SAFE or its local branches in specified circumstances. According to the Circular of the General Office of the National Development and Reform Commission on Requirements for Record-filing for Issuance of Foreign Debts by Real Estate Enterprises (《國家發展改革委辦公廳關於對房地產企業發行外債申請備案登記有關要求的通知》 (發改辦外資[2019]778號)) promulgated by the NDRC that came into effect on 9 July 2019, foreign debt issued by real estate enterprises could only be used for repaying medium and long-term offshore debt that will be due in the upcoming year.

We may be adversely affected by a severe or prolonged deterioration in the Chinese or global economy and financial markets.

Any severe or prolonged slowdown in the Chinese or global economy may have a negative impact on our business. Concerns over inflation, geopolitical issues, the availability and cost of credit, volatile oil price, the rise in anti-globalisation sentiment and the ambiguity of the policies of the United States administration have contributed to increased volatility for the global economy and the markets. The uncertainty of the interest rates in the United States have impacted global equity markets and commodity prices. More recently, the United Kingdom's exit from the European Union in January 2020 has created further challenges to regional stability, which may in turn adversely impact the world economy and subject the global market to a period of fluctuations and volatility. These events have generally put a downward pressure on the demand for real estate and on the real estate prices globally and could adversely affect our business, financial condition and results of operations.

In addition, during the six months ended 30 June 2020, despite the recovering external demand and rebounding export growth, the private investment growth has continued to be weak and the growth in real estate investment and sales slowed down in certain regions as a result of the increasingly tightened macro-control on the PRC property market and financial deleverage.

Any deterioration in economic conditions could have a material adverse effect on our business in a number of ways. In particular, current and potential tenants and purchasers of properties may be unable to sustain their business operations or make agreed upon rental or purchase payments, all of which could lead to a reduced demand for our properties, reduce our profit margins and delay our receipt of rental and purchase payments. In addition, a deterioration in economic conditions could depress demand for properties and reduce our average sales prices of our properties. Furthermore, a deterioration of conditions in the banking system and financial markets could result in a severe tightening in credit and equity markets, which may adversely affect the availability, terms and cost of borrowings for us and our customers, including financings necessary to complete our properties under development.

Further, the prolonged trade dispute between the United States and the PRC may continue to weaken the global economy, raise prices for businesses and consumers, delay corporate investments and slow economic growth around the globe. Even though the United States and China entered into an initial phase of trade deal in early 2020, the impact of such agreement on the Chinese economy is still largely unknown as sources of tension remain in the US-China trade relationship. If present Chinese and global economic uncertainties persist, we may have difficulty in selling our properties. Any potential changes in monetary policies in the PRC may increase the overall purchasing costs and reduce the credit availabilities for consumers, which may adversely affect our business and results of operations. Should any of these situations occur, our business and financial condition will be negatively impacted. Additionally, continued turbulence in the international markets may adversely affect our ability to access the capital markets to meet liquidity needs.

We may not always be able to replenish our land reserves in desirable locations that are suitable for our development, and in a timely manner and on commercially reasonable terms.

We have derived and will continue to derive substantially all of our revenues from sales or lease of properties that we have developed. As a result, the sustainable growth and success of our business depend significantly on our ability to continue to acquire additional land reserves in desirable locations at commercially reasonable prices that are suitable for our projects. Our ability to identify and acquire suitable development sites is subject to a number of factors, some of which are beyond our control. Currently, the PRC government controls and regulates substantially all of the land in the PRC. Therefore, the PRC government's land policies will have a direct impact on our ability to acquire land use rights for future development and the costs of any acquisition by us. In recent years, to temper the overheating of the domestic property market, the central, provincial and local governments in the PRC have implemented various measures to restrain the acquisition of land use rights by property developers for property development. The PRC government also controls land supply through zoning, land usage regulations and

other means. All these measures further intensify the competition for land in the PRC among property developers. For example, subsequent re-zoning by the PRC government may adversely affect a developer's ability to obtain land use rights. If we fail to acquire sufficient land sites suitable for future development in a timely manner and at reasonable prices, our prospects and competitive position may be adversely affected and our growth potential and performance may be materially and adversely affected. Failure to replenish our land bank in a timely manner and on commercially reasonable terms or at all, may materially and adversely affect our business, financial condition and results of operations.

The limited supply of land in Hong Kong has, in the past, made it increasingly difficult to locate suitable property to acquire at economical prices for development. Government policies seeking to increase land supply and increases in borrowing costs could affect our ability to maintain historical operating margin levels, and our profits from property development activities could be materially and adversely affected.

Further expansion into other cities in the PRC may affect our operational and financial resources.

As part of our growth strategy in the PRC, we have expanded and will continue to expand our development projects outside our core base, Guangzhou, into certain provincial-capital cities in the PRC that have been identified as having high growth potential, good infrastructure development and a balance of property demand and land supply. As we intend to expand our property project portfolio strategically and prudently in the future, our business, financial condition and results of operations may be particularly subject to market uncertainties, volatility and significant adverse changes in the real estate market in the PRC, especially in Guangdong Province where a substantial share of our business is located. The real estate markets may be affected by local, regional, national and global factors, including economic and financial condition, speculative activities in local markets, demand for and supply of properties, investor confidence, availability of alternative investment choices for property buyers, inflation, government policies, interest rates and availability of capital. For example, there have been increasing concerns over the sustainability of the real estate market growth in the PRC due to the recent slowdown in the PRC's economic growth. Factors such as decrease in available funds and investor confidence may negatively impact demand for the properties we developed. As a result, the property market may experience an over-supply of properties and idle housing inventory. Any over-supply of properties or any potential decline in the demand for or prices of properties in the cities in which we operate or intend to operate could have a material adverse impact on our business, financial condition and results of operation.

Further, our plans for expansion into other cities in the PRC, and the need to integrate operations arising from our expansion particularly into other fast growing cities in the PRC may place a strain on our managerial, operational and financial resources and contribute to an increase in our financing requirements, particularly for such locations where we do not have an existing presence or supply network. Failure to manage our expansion plan may materially and adversely affect our business, financial condition and results of operations.

Our business requires substantial capital resources and we may incur additional indebtedness in the future.

Property development is capital-intensive and we expect to continue to incur a high level of capital expenditures in the foreseeable future. We principally fund our property developments from a combination of cash generated from our business, borrowings from banks, proceeds from sales and pre-sales of our properties and proceeds from issuance of equity and debt securities. As at 30 June 2020, the outstanding balance of our total indebtedness amounted to RMB71,426.5 million. Our ability to secure sufficient financing for land acquisition and property development depends on a number of factors that are beyond our control, including but not limited to changes in the monetary policies of the PRC government with respect to interest rates and lending practices, market conditions in debt and equity capital markets, investors' appetite for our securities, lenders' perception of our creditworthiness, the PRC economy and the PRC regulations that affect the availability and financing costs for real estate companies.

The PRC government has implemented a number of measures to manage money supply growth and credit availability. For example, according to the General Lending Provisions (《貸款通則》), a regulation promulgated by the PBOC in 1996, only financial institutions with the approval from the PBOC to provide loan services may legally engage in the business of extending loans and loans between companies that are not financial institutions with the approval from the PBOC to provide loan services are prohibited, which may not comply with the General Lending Provisions notwithstanding whether interests are charged or not. The PBOC may impose penalties on the lender equivalent to one to five times of the income generated (being interests charged) from loan advancing activities. This kind of restriction might limit our potential opportunities to seek external financing.

We cannot assure you that we will be able to renew our current credit facilities or obtain sufficient funding at reasonable terms to finance intended purchases of land use rights, develop future projects or meet other capital needs as and when required at a commercially reasonable cost or at all. If principal payments due at maturity cannot be refinanced, extended or paid with proceeds of other capital transactions, such as new equity or debt capital, our cash flows may not be sufficient to repay all maturing debt. If prevailing interest rates or other factors at the time of any refinancing result in higher interest rates, increased interest expense would adversely affect our ability to service our debt and our financial condition and results of operations. In addition, the financing agreements we entered into with the lenders impose certain obligations, such as notification of certain corporate changes or any event that may affect the ability to repay the loan. Any material non-compliance with these provisions may result in default under the financing agreements and/or requirement of us to repay the loan before maturity, which may in turn affect our ability to obtain financing in the future or trigger a cross default under other indebtedness (including the Notes). Failure to obtain adequate funding at a commercially reasonable cost may limit our ability to commence new projects or to continue the development of existing projects and could increase our financing costs, which could result in a material adverse effect on our business, financial condition and results of operations.

We face certain risks and uncertainties with our interaction with, and injection of properties into, Yuexiu Real Estate Investment Trust (“Yuexiu REIT”).

We have been focusing on the balanced development of both residential and commercial operations, as well as utilising our unique interactive business model of “Property — REIT”. As at 30 June 2020, we held 38.37 per cent. of the issued units in Yuexiu REIT. As a significant and the largest unitholder of Yuexiu REIT, our ongoing business strategy includes plans to inject other properties into Yuexiu REIT, subject to our business operations, financial condition and market conditions, as well as regulatory, shareholder and unitholder approvals, including the requirement that such transactions are on normal commercial terms at arm’s length and are fair and reasonable and in the interests of shareholders and unitholders as a whole. As a part of our business strategy, we injected Guangzhou International Finance Centre (“**Guangzhou IFC**”) into Yuexiu REIT on 8 October 2012, Wuhan Yuexiu Fortune Centre, Starry Victoria Shopping Centre and certain carpark spaces (“**Wuhan Properties**”) into Yuexiu REIT in 2017 and Hangzhou Victory Business Center Units and certain carpark spaces (“**Hangzhou Victory**”) into Yuexiu REIT in 2018. While we intend to continue this strategy with respect to Yuexiu REIT, we may not be able to continue such asset injections for various factors, some of which are out of our control. We may be unable to effectively utilise and re-allocate completed commercial properties, as regulatory, shareholder and unitholder approvals are necessary for the injection of properties into Yuexiu REIT. Delays in, or failures to, allocate such completed properties into Yuexiu REIT may result in decreased funds available for our operations, which could hinder or halt the progress of our other commercial properties under development. In addition, due to factors beyond our control, we may also be unable to continue benefitting from dividend payments and recurring cash flows that we expect from our interaction with, and shareholding in, Yuexiu REIT. The occurrence of any of the foregoing may have a material adverse effect on our business, prospects, cash flows, financial condition and results of operations.

The growth of our business through acquisitions and introduction of strategic investors may not succeed and we may have difficulty in managing our operations.

We have acquired and will continue to acquire interests in projects and project companies as part of our development plan. We have been actively expanding our business operations through acquisitions and introduction of strategic investor(s). The operational, regulatory, financial, legal as well as cultural challenges presented as a result of these projects and transactions could be significantly different from that of our existing business. There is a risk that we may not assimilate operations, technologies, production procedures and management of employees of these projects or project companies or successfully realize the benefits of the business opportunities brought by the introduction of strategic investor(s). There may also be difficulties for us to ensure compliance with the local environmental and labour laws and regulations.

The complexities of political, economic and other conditions in the jurisdiction(s) where the projects relate may increase our risk profile. In the event that we are unable to successfully acquire or manage the acquired projects or project companies or realize the benefits of the business opportunities brought by the introduction of strategic investor(s), it may have a material adverse effect on our business, prospects, cash flows, financial conditions and results of operations.

Changes in interest rates have affected and may continue to affect our financing costs and, ultimately, our results of operations.

We have incurred and expect to continue to incur a significant amount of interest expenses relating to our borrowings from commercial banks, asset management, and trust financing providers. Accordingly, changes in interest rates have affected and may continue to affect our financing costs, which in turn may affect our profitability and operating results. As at the date of this Offering Circular, our borrowings include loans from commercial banks in the PRC and Hong Kong. Many of our customers also need to finance their purchase of our properties through mortgage loans. The PBOC has adjusted the benchmark one-year lending rate numerous times in the past in response to the changing PRC and global financial and economic conditions. We cannot assure you that the PBOC will further decrease the benchmark lending rate or that the interest rates at which financing will be available to us or our customers will decrease in the future. In addition, we cannot predict if and when interest rates in the PRC may increase. Furthermore, some of our borrowings carry interest based on inter-bank benchmarks, such as LIBOR or HIBOR. Any increase in the interest rates will increase our finance costs and also increase the costs of our customers to purchase our properties with mortgages and therefore adversely affect our business, financial condition and results of operations.

Our results of operations may fluctuate from period to period.

For the years ended 31 December 2018 and 2019 and the six months ended 30 June 2020, our revenue was RMB26,433.4 million, RMB38,339.1 million and RMB23,713.9 million, respectively. Our results of operations tend to fluctuate from period to period, partly due to our revenue recognition policy as well as changes in the fair value of our investment properties. We recognise revenue from a sale of property only upon completion and delivery to purchasers, and because the delivery of our properties varies according to our construction timetable, our revenue and results of operations may fluctuate from period to period. In light of the above, and since revenue from sales of properties has accounted for a majority of our total revenue, our results of operations and cash flow positions in past periods may not be comparable to future periods. The number of properties that we can develop or complete during any particular period may be limited due to the substantial capital required for land acquisition and construction, as well as the lengthy development periods required before positive cash flows may be generated. Furthermore, the completion and delivery of any project development may be adversely affected by a combination of factors, including adverse weather conditions, delays in obtaining requisite permits and approvals from relevant government authorities, as well as other factors beyond our control. Any of these factors may affect the timing of completion and delivery of our projects, as well as our cash flow position and recognition of revenue from

our projects, thus adversely affecting our financial condition and results of operations. See “**Risk Factors — Risks Relating to the Group and its Business — We may not be able to complete our projects according to schedule, on budget, or at all, which may adversely affect our business and financial condition.**”

Our results of operations also fluctuate due to changes in the fair value of our investment properties. Property valuation typically requires the use of certain bases and assumptions with respect to a variety of factors, including supply and demand of comparable properties, the rate of economic growth in the location of the property, interest rates, inflation and political and economic developments in the PRC. For the year ended 31 December 2018, we had net fair value gains on revaluation of investment properties of approximately RMB371 million while for the year ended 31 December 2019 and the six months ended 30 June 2020, we had net fair value losses on revaluation of investment properties of approximately RMB23 million and RMB18 million, respectively. The fair value gains or losses on revaluation of investment properties reflect unrealised capital gains or losses on our investment properties at the relevant balance sheet dates. These fair value gains or losses were not profit generated or losses incurred from day-to-day rental income from our investment properties and were largely dependent on prevailing property market conditions. Furthermore, fair value gains do not generate cash inflow which can be contributed to payments of interest, principal or other amounts under the Notes unless such investment properties can be disposed of and the capital gains are realised. The change in fair value of our investment properties has been, and will continue to be, significantly affected by the prevailing property market prices and is subject to market fluctuations. We cannot assure you that we will record fair value gains or that the fair value of our investment properties will not decrease further in the future. In addition, we cannot assure you that we will be able to realise all or any of the fair value gains. In the event there is a material negative change in the value of our investment properties in the future, our financial condition and results of operations will be materially and adversely affected.

In accordance with our accounting policies, for the years ended 31 December 2018 and 2019, we recorded provision for impairment of properties held for sale of RMB85.6 million and RMB179.8 million, respectively, representing 0.32 per cent. and 0.47 per cent. of our total revenue for the same year, respectively, primarily because we record provision for impairment of properties held for sale from time to time based on the actual operation status of our property development projects in accordance with our timely inspection mechanism. We may incur such provision in the future.

We may not be able to complete our projects according to schedule, on budget, or at all, which may adversely affect our business and financial condition.

The schedules of our project developments and whether the project can be completed within the planned budgets depend on a number of factors, including the performance and efficiency of our third-party contractors and our ability to finance construction and associated financing costs. Other specific factors that could adversely affect our project development schedules and budgets include:

- changes in market conditions, economic downturns, and decrease in business and consumer sentiment in general;
- changes in relevant regulations, government policies and government planning;
- delays or failure to obtain necessary licenses, permits and approvals from relevant government authorities;
- changes in laws, rule, regulations and government policies;
- disputes with our business partners;
- availability and cost of financing;

- relocation of existing residents and/or demolition of existing constructions;
- shortage of materials, equipment, contractors and skilled labour;
- latent soil or subsurface conditions and latent environmental damage requiring remediation;
- labour disputes and strikes;
- construction accidents;
- errors in judgment on the selection and acquisition criteria for potential sites; and
- occurrence of epidemics, natural catastrophes and adverse weather conditions.

When we are affected by one or more of the above factors, we may have already expended significant capital resources with little or no prospect of recovering or mitigating our losses. Substantial capital expenditures are generally incurred for land acquisition and property construction. We typically formulate our pre-sales plan based on our construction plan and market conditions. If the construction schedule of a project has been significantly delayed due to various factors, including the factors listed above, we may not be able to complete the construction as scheduled, which may cause delays in property delivery. Construction delays or failure to complete the construction of a project according to its planned specifications, schedule and budget may harm our reputation as a property developer, leading to loss of or delay in recognising our revenues and lowering our returns. If a property project is not completed on time, the purchasers of pre-sold units may be entitled to compensation for late delivery or may be able to terminate the pre-sale contracts and claim damages. We cannot assure you that we will not experience any significant delays in completion or delivery of our projects in the future or that we will not be subject to any liabilities for any such delays.

We are exposed to contractual and legal risks related to pre-sales.




Pre-sales of properties is an important source of funding of our property projects. Under current PRC laws and regulations, property developers are, subject to certain conditions, allowed to pre-sell properties prior to their completion and may use such pre-sales proceeds only to finance the construction of the relevant development project.

We make certain undertakings in our pre-sale contracts, and our pre-sale contracts and the PRC laws and regulations provide for remedies for breach of these undertakings. For example, if we pre-sell units in a property development and we fail to complete that development, we will be liable to the purchasers for their losses. If we fail to complete a pre-sold property on time, we may be liable to the relevant purchasers for such late delivery under the relevant pre-sale contracts or pursuant to relevant PRC laws and regulations. If our delay extends beyond a specified period, the purchasers may terminate their pre-sale contracts and claim for damages. A purchaser may also terminate his or her contract with us and/or bring claims for compensation for certain other contract disputes, including, for example, if the gross floor area (“GFA”) of the relevant unit, as set out in the individual property ownership certificate, deviates by more than 3 per cent. from the GFA of that unit as set out in the contract; if the floor plan of the relevant unit is different from what is set out in the contract and adversely affects the quality and functionality of the unit; if the interior decoration of the relevant unit is inferior to what is set out in the contract; or if the purchaser fails to receive the individual property ownership certificate within a statutory period due to our fault. We cannot assure you that we will not breach such undertakings in the future. If we experience material delays in delivering our properties in the future or are required to pay significant amounts of compensations to our purchasers due to contractual disputes or other reasons, our business, financial condition and results of operations may be materially and adversely affected.

Although we are able to claim compensation from the contractors pursuant to the terms of our contract with them if such breach is due to our third-party contractors, we also cannot assure you that we will always successfully recoup full compensation from our contractors. Furthermore, we cannot assure you that the PRC government will not ban or impose material limitations on pre-sales of uncompleted properties in the future. Future implementation of any restrictions on our ability to pre-sell our properties, including any requirements to increase the amount of up-front expenditure we must incur prior to obtaining the pre-sale permit, would extend the time required for recovery of our capital outlay and would force us to seek alternative means to finance the various stages of our property development. Any of such factors could have an adverse effect on our business, financial condition and results of operations.

In addition, under the current PRC laws, property developers must fulfill certain conditions before they can commence pre-sales of the relevant properties and the use and deposit of pre-sales proceeds are also restricted. If we fail to deposit certain of the pre-sales proceeds into the designated custodial accounts in accordance with the relevant PRC laws and any relevant local requirements, we may be subject to certain disciplinary measures, including suspending the allocation of supervisory funds, suspending the qualification of commercial housing online contracting for the project and recording it in the credit files of real estate development enterprises. According to the Notice of the Ministry of Housing and Urban-Rural Development on Further Strengthening the Supervision of the Real Estate Market to Improve the Pre-sale System of Commodity Housing (住房和城鄉建設部關於進一步加強房地產市場監管完善商品住房預售制度有關問題的通知), the pre-sale proceeds of commercial housing shall be fully included in the supervision account, and the supervisory authority shall be responsible for the supervision and control to ensure that the pre-sale funds may be appropriated according to the construction of commercial housing projects; the pre-sale funds may be appropriated according to the construction progress, but sufficient funds must be retained to ensure the completion and delivery of the construction projects. Local regulations governing the domestic subsidiaries further regulate the supervision of pre-sale proceeds. There can be no assurance that the PRC government and local authorities will not ban or impose further restrictions on pre-sales. If we fail to comply with the relevant regulations and requirements, we may face fines which could have a material adverse effect on our business, financial condition and results of operations.

Deterioration in our brand image or any infringement or inappropriate use of our intellectual properties may be detrimental to our reputation and profitability.

We have been using the trademarks, “” and “”, registered with the PRC Trademark Office by our controlling shareholder, Guangzhou Yuexiu Holdings Limited (“GZ Yuexiu”), and the trademark “”, registered with the Trademarks Registry in Hong Kong by GZ Yuexiu. We also owns the domain name of www.yuexiuproperty.com. We believe that our trademarks and intellectual properties form an integral basis of our brand recognition and are important to our business. Consumer demand for our properties and our brand value could diminish significantly if we fail to preserve the quality of our properties or fail to deliver a consistently positive consumer experience, or if we are perceived to be acting in an unethical or socially irresponsible manner. Any negative incident or negative publicity concerning us or our properties may materially and adversely affect our reputation, financial condition and results of operations.

In addition, any unauthorised use or infringement of our trademarks and intellectual properties may impair our brand value, damage our reputation and materially and adversely affect our business and results of operation. However, we cannot assure you that our trademarks and intellectual properties will not be the subject of any infringements or unauthorised uses by third parties.

Brand value is based largely on consumer perceptions with a variety of subjective qualities and can be damaged even by isolated business incidents that degrade consumers’ trust. Any litigation or dispute in relation to our trademarks and intellectual properties could result in substantial costs and diversion of resources and may materially and adversely affect our business and results of operations.

Any disputes with our joint venture or project development partners may materially and adversely affect our business.

We carry out and plan to carry out some of our business through joint ventures or in collaboration with third parties. Such joint venture arrangements or collaboration involve a number of risks, including:

- disputes with our partners in connection with the performance of their obligations under the relevant project, joint venture or cooperative property development agreements;
- disputes as to the scope of each party's responsibilities under these arrangements;
- financial difficulties encountered by our partners affecting their ability to perform their obligations under the relevant project, joint venture or cooperative property development agreements with us; or
- conflicts between the policies or objectives adopted by our partners and those adopted by us.

The occurrence of any of the foregoing and other related factors could materially and adversely affect our business, financial condition and results of operations.

We may be unable to renew tenancies or re-lease space at rental rates equal to or above the current rental rates or at all for our investment properties when tenancies expire.

A portion of our revenue is derived from rental income from our offices, commercial properties and parking places held as investment properties. As at 31 December 2018 and 2019 and 30 June 2020, we had investment properties with a GFA of approximately 0.6 million sq.m., 0.5 million sq.m. and 0.5 million sq.m. under lease. Rental revenue from investment properties contributed approximately 2.59 per cent., 1.8 per cent. and 1.23 per cent. of our total revenue for the years ended 31 December 2018 and 2019 and the six months ended 30 June 2020, respectively. Our financial performance may be materially and adversely affected in the event of a decline in rental or occupancy levels, or difficulties in securing lease renewals or obtaining new tenants, or if existing tenants reduce the amount of space that they occupy for any reason. Currently, a majority of the tenancy agreements will expire within five years. We cannot assure you that tenants will renew their leases upon expiration or that we will be able to find replacement tenants at rental rates equal to or higher than those of the expiring tenancies. Moreover, we may be unable to obtain replacement tenants in time so as to minimise vacancy periods in between tenancies or to obtain rental rates equal to or above the current rental rates. Furthermore, if vacant space cannot be leased out for a significant period of time, the market value of our investment properties may be adversely affected. Any such situation may materially and adversely affect our business, financial condition and results of operations.

We rely on independent contractors or sub-contractors for the provision of certain services.

We engage independent third-party contractors or sub-contractors to provide various services including construction, piling and foundation, engineering, interior decoration, mechanical and electrical installation and utilities installation. We cannot assure you that the services rendered by any independent third-party contractor or sub-contractor will always be satisfactory or match our expected quality and safety standards and our timing requirements. We are also exposed to the risk that our contractors may require additional capital to complete an engagement in excess of the price originally tendered and we may have to bear additional costs as a result. If the performance of any independent contractor is not satisfactory or is delayed, we may need to replace such contractor or take other actions to remedy the situation, which could adversely affect the cost and construction progress of our projects. Moreover, the completion of our property developments may be delayed, and we may incur additional costs to replace a contractor due to a contractor's financial or other difficulties. Any of these factors could materially and adversely affect our business, financial condition and results of operations.

We may suffer losses arising from uninsured risks since our insurance coverage may not be adequate to cover all risks related to our operations.

In line with industry practice, we maintain a limited number of insurance policies for our property development projects. In addition, we require the general contractors of our development projects to maintain insurance policy in accordance with the contracting agreements. We do not maintain insurance covering construction-related property damage or personal injuries of third parties which may occur or are not covered by or exceed any insurance that our contractors carry.

Further, we do not maintain insurance for any liability arising from allegedly tortious acts committed on work sites. We cannot assure you that we would not be sued or held liable for damages due to such tortious acts. Moreover, there are certain losses for which insurance is not available on commercially practicable terms, such as losses suffered due to earthquake, typhoon, flooding, war and civil disorder. If we suffer from any losses, damages or liabilities in the course of our operations and property development, we may not have sufficient funds to cover any such losses, damages or liabilities or to replace any property development that has been damaged or destroyed through such incidents. In addition, any payment we make to cover any losses, damages or liabilities may have a material adverse effect on our business, financial condition and results of operations.

We may be involved in disputes, legal and other proceedings arising out of our operations from time to time, including any disputes with our contractors, suppliers, employees, tenants or other third parties, and may face significant liabilities as a result.

From time to time, we may be involved in disputes that arise during the ordinary course of business with various parties involved in the development and the sale of our properties, including contractors, suppliers, construction workers, original residents, partners, banks and purchasers. These disputes may lead to protests, legal or other proceedings and may result in damage to our reputation, substantial costs and diversion of resources and management's attention. As most of our projects are comprised of multiple phases, purchasers of our properties in earlier phases may file legal actions against us if our subsequent planning and development of the projects is perceived to be inconsistent with our representations and warranties made to such earlier purchasers. In addition, we may have disagreements with regulatory bodies in the course of our operations, which may subject us to administrative proceedings and unfavourable decrees that result in liabilities and cause delays to our property developments. See "**Business — Legal Proceedings**" in this Offering Circular for further details. We cannot assure you that we will not be involved in any material legal proceedings in the future. Any involvement on these disputes may materially and adversely affect our business, financial condition and results of operations.

The registered capital of certain PRC subsidiaries of our Group are not paid in full.

As at the date of this Offering Circular, RMB822,871.6 of the registered capital of Hangzhou Yuerong Properties Development Co., Ltd. was due but unpaid due to currency exchange. The registered capital of Hangzhou Yuexiu Properties Development Co., Ltd. and Yantai Zhongyue Real Estate Co., Ltd. have not been paid in full while the instalments due have been paid in accordance with their respective articles of associations. Pursuant to relevant PRC laws and the articles of associations of these subsidiaries of our Group, we may be subject to claims and lawsuits from our subsidiaries, subsidiaries' shareholders, or subsidiaries' creditors for failure to pay up or pay in full the registered capital in the required timeframe, which would consequently have an adverse impact on the operations of these subsidiaries.

We have provided guarantees to mortgage facilities and may be liable to the mortgagee banks if our purchasers default on their mortgage facilities.

In line with industry practice, commercial banks require us to guarantee mortgage loans offered to purchasers of the properties that we develop. Typically, we guarantee mortgage loans for purchasers up until (i) we complete the relevant properties and the property ownership certificates and the mortgage are registered in favour of the mortgage bank, or (ii) the settlement of mortgage loans between the mortgagee bank and the purchaser, whichever is earlier.

The guarantees cover the full value of mortgages that purchasers of our properties have obtained to finance their purchases and any additional payments or penalties imposed by mortgagee banks for any defaults in mortgage payments by the purchasers. If a customer defaults on payment of its mortgage, the mortgagee bank may require that we immediately repay the entire outstanding balance of the mortgage and any additional payments or penalties pursuant to the guarantee. Upon satisfaction of our obligations under

the guarantee, the mortgagee bank would then assign its rights under the loan and the mortgage to us and we would then have full recourse to the property. Also in line with industry practice, we do not conduct any independent credit checks on our customers and rely on the credit evaluations conducted by the mortgagee banks.

As at 30 June 2020, total contingent liabilities relating to these guarantees amounted to approximately RMB21.4 billion. Our business, financial condition and results of operation could be materially and adversely affected if there is a default in these mortgage facilities of significant amount, a material depreciation in the value of the mortgaged properties or if we are unable to re-sell such properties at a price at least equal to the mortgage amount, or at all, due to unfavourable market conditions or for other reasons.

Property owners may terminate our engagement as the provider of property management services.

We provide property management services with respect to properties we developed, including most of our investment properties and substantially all of the properties sold to our customers. We believe that property management is an integral part of our business and an important component to the successful marketing and promotion of our property developments. However, if owners of the properties that we manage choose to terminate our property management services, our reputation and marketing strategies could be negatively affected. In addition, in the event the owners so choose to engage different property managers, and such managers fail to keep up the properties we developed, our reputation as a prime office property developer may be damaged.

Potential liability for non-compliance with environmental laws and regulations could result in substantial costs and delays in construction schedule.

We are subject to a variety of laws and regulations concerning the protection of health and environment. The particular environmental laws and regulations that apply to any given project development site vary according to the site's location, the site's environmental condition, the present and former uses of the site, as well as adjoining properties. As the PRC government increases its focus on the environment, our projects may be more strictly reviewed and inspected, and approval processes for future projects or any alteration to existing projects may be prolonged. In addition, we may incur ongoing costs of compliance with environmental laws and regulations in the context of our property management business. Efforts taken to comply with environmental laws and regulations may result in delays in development, cause us to incur substantial compliance costs and prohibit or severely restrict project development activity in environmentally sensitive regions or areas.

As required by PRC laws and regulations, each project we develop is required to undergo environmental assessments and we are required to submit an environmental impact assessment report to the relevant governmental authorities for approval before we commence constructing. For other property projects, we are required to file the environmental impact registration form for record-filing. If we fail to meet such requirements, local authorities may issue orders to restrict construction and based on the circumstances of the violation and the consequences thereof, impose on us a fine of between one to five per cent. of the total investment amount of the project, and may also issue orders to restore the original conditions before the construction; and the persons directly in charge and other directly responsible persons of us shall be subject to administrative sanctions under the law. After the completion of construction, for those projects which need approval from the relevant government authorities before the commencement of construction as discussed above, we are required to make an acceptance check of the environment protection facilities and prepare an acceptance report according to the standards and procedures stipulated by the relevant environmental laws and regulations or the competent administrative department of environmental protection under the State Council of the People's Republic of China (the "State Council"). It is possible that there are potential material environmental liabilities of which we are unaware. In addition, we cannot assure you that our operations will not result in environmental liabilities or that our contractors will not violate any environmental laws and regulations in our operations that may be attributed to us.

We rely on our key management personnel.

Our continued success and future growth depends on our ability to identify, hire, train and retain suitably skilled and qualified employees, including key senior management personnel with the requisite industry expertise. We rely on their vision, relevant expertise and experience in respect to business operations, strategies, and project development and design. In particular, our chairman Mr. LIN Zhaoyuan, with a bachelor's degree of economics and a master degree of business administration from the Sun Yat-Sen University and the qualification of mechanical engineer, also has relatively extensive work experience in corporate management, cost control and corporate restructuring and development, and is very forward-looking and innovative in corporate operations and management. Our general manager, Mr. LIN Feng, graduated from Guangdong University of Finance & Economics in accounting with a bachelor's degree in economics. Mr. Lin also holds a master's degree in business administration from the University of Western Sydney and the qualification of accountant awarded by the Ministry of Finance of the People's Republic of China. The loss of Mr. LIN Zhaoyuan or Mr. LIN Feng, or any of our other key senior management personnel or key employees, could have a material adverse effect on our business and prospects if we are unable to find suitable replacements for them in a timely manner. In addition, competition for such personnel is intense, the pool of qualified candidates is very limited, and we may not be able to retain the services of our senior executives or key personnel, or attract and retain high-quality senior executives or key personnel in the future. Furthermore, if any member of our senior management team or any of our other key personnel joins a competitor or forms a competing company, we may lose key professionals or staff members and our business, prospects, financial condition and results of operations could be materially and adversely affected.

We are exposed to risks associated with failing to detect and prevent fraud, negligence or other misconduct committed by our employees, third-party subcontractors or other third parties.

We are exposed to fraud, negligence or other misconduct, intended or unintended, committed by our employees, subcontractors, customers or other third parties that could subject us to financial losses and penalties imposed by governmental authorities as well as seriously harm our reputation. We cannot assure you that our risk management and internal control systems will always enable us to detect, prevent and take remedial measures in relation to fraud, negligence or other misconduct committed by our employees, third-party subcontractors or other third parties in a timely and effective manner. Although we have limited control over the behavior of any of these parties, we may be viewed as at least partially responsible for their conduct on contractual or tortious grounds. We may become, or be joined as, a defendant in litigation or other administrative or investigative proceedings and be held accountable for injuries or damages sustained by our customers or third parties. In the event that we cannot recover related costs from the employees, third-party subcontractors or third parties involved in the misconducts, our business, financial condition and results of operations could be materially and adversely affected. Such misconducts could also attract negative publicity on our Group, damaging our reputation and brand value.

Our controlling shareholder has significant influence over us, whose interests may differ from those of our other Shareholders.

As at 30 June 2020, our controlling shareholder, GZ Yuexiu, indirectly owned 39.78 per cent. of our outstanding shares and has significant influence over us. As our controlling shareholder, GZ Yuexiu may be able to exercise indirect control over our business and affairs, including, but not limited to, decisions with respect to:

- mergers or other business combinations;
- the acquisition or disposition of assets;
- the issuance of additional shares or other debt or equity securities; and
- the management of the Company.

Accordingly, the interest of our controlling shareholder may differ from the interest of our other shareholders, and our controlling shareholders have no obligation to consider the interests of our other Shareholders. We therefore cannot guarantee that our controlling shareholder will not cause us to revise our business strategies, enter into transactions, take or fail to take any other actions or make decisions that conflict with the best interests of our other Shareholders. In the event that the interests of our controlling shareholders conflict with those of our other Shareholders, our other Shareholders may be disadvantaged.

Our results of operations may be affected by the rising cost of labour, construction materials or building equipment.

During the years ended 31 December 2018 and 2019 and the six months ended 30 June 2020, we experienced an increase in development and construction costs mainly due to rising labour costs and raw material prices, and expect such costs to continue to increase in the foreseeable future. Under the terms of most of our construction contracts, the construction contractors are responsible for the wages of construction workers and procuring construction materials for our property development and bear the risk of fluctuations in wages and construction material prices during the term of the relevant contract. The contractors are also liable if they do not purchase work injury insurance for their workers as required. However, we are exposed to the price volatility of labour and construction materials to the extent that we periodically enter into new or renew existing construction contracts at different terms during the life of a project, which may span over several years, or if we choose to hire the construction workers directly or purchase the construction materials directly from suppliers. We are also exposed to the price volatility of building equipment and materials used in properties developed by us because we usually procure such equipment and materials ourselves. Furthermore, to the extent we pre-sell our properties prior to their completion, we will be unable to pass the increased costs on to purchasers of our properties if the construction costs increase subsequent to the time of such pre-sale. Higher costs of project development may result if we are unable to pass on any increase in the cost of labour, construction materials and building equipment to either our construction contractors or to the purchasers of our properties, our business and results of operations may be adversely affected.

Risks Relating to Our Industry

The cyclical nature of the property markets in the PRC and Hong Kong may adversely affect our results of operations.

Our results of operations are and will continue to be affected by the cyclical nature of the property markets in the PRC and Hong Kong. Property values and rents are affected by, among other factors, supply and demand of comparable properties, interest rates, inflation, the rate of economic growth, tax laws and political and economic developments in the PRC and Hong Kong. We cannot assure you that property values and rents will not decline. The rapid expansion of the property market in certain major cities in the PRC, including Shanghai and Beijing in the early 1990s, culminated in oversupply in the mid-1990s and a corresponding fall in property values and rentals in the second half of the decade. After the global financial crisis of 2008 and starting from the second half of 2009, prices of the residential properties in many cities in the PRC rose rapidly. In the past, the PRC government at both the central and local levels have implemented various policies and regulatory measures to curb perceived unsustainable growth in the real estate market. In 2017, in order to control the overheated property market in major cities, the PRC government tightened control policies on property market regulation by strictly restricting purchase, credit and prices in order to suppress the excessive growth in the price. Increased competition brought by additional supply in the PRC and Hong Kong could adversely affect rents and occupancy rates as well as sales prices for new properties. The property market in Hong Kong is also affected by the policies of the Hong Kong government including but not limited to, taxes and duties, such as (i) the modified ad valorem stamp duty, which applies to both residential and commercial property, save for residential property acquired by a permanent resident of Hong Kong who does not own any other residential property at the time of the acquisition; (ii) the special stamp duty, which is imposed on disposal of residential properties in Hong Kong made within 36 months after the acquisition; and (iii) a buyer's stamp duty on residential properties purchased by any person (including a company incorporated) except for a permanent resident of Hong Kong. We cannot assure you that the demand for new properties, where we have or will have operations, will continue to grow in the future or that there will not be over-development or market

downturns in the PRC or Hong Kong property markets. Any such adverse development and the ensuing decline in property sales or leases or decrease in property prices or rental rates in the PRC and Hong Kong may adversely affect our business, financial condition and results of operations.

The illiquid nature of, and the lack of alternative uses for, investment properties could limit our ability to respond to adverse changes in the performance of our properties.

Investment properties in general are relatively illiquid compared to other types of investments, such as securities. As such, our ability to promptly sell one or more of our investment properties in response to changing economic, financial and investment conditions is limited. The property market is affected by many factors that are beyond our control, including but not limited to general economic conditions, the availability of mortgage financing and interest rates, and we cannot accurately determine the market price of our investment properties nor are we able to predict whether we will be able to sell any of our investment properties at the price or on the terms set by us, or whether any price or other terms offered by a prospective purchaser would be acceptable to us. In addition, investment properties may not be readily convertible for alternative uses without substantial capital expenditure if the original function of such investment property became unprofitable due to competition, age, decreased demand or other factors. Similarly, for certain investment properties to be sold, substantial capital expenditure may be required to correct defects or make improvements to the property due to factors such as change in building regulations or as a result of age, compounding the effort and time required. These factors and any others that would impede our ability to respond to adverse changes in the performance of our investment properties could materially and adversely affect our business, financial condition and results of operations.

We may not be able to generate adequate returns on our properties held for long-term investment purposes.

Property development is subject to varying degrees of risk. The investment returns available from investments in real estate depend, to a large extent, on the amount of capital appreciation generated, income earned from the rental of the relevant properties as well as the expenses incurred. Maximising yields from properties held for investment also depends to a large extent on active ongoing management and maintenance of the properties. The ability to eventually dispose of investment properties will also depend on market conditions and levels of liquidity, which may be limited or subject to significant fluctuation in the case of certain types of commercial properties. The revenue derived from and the value of property investment may be adversely affected by a number of factors, including but not limited to changes in market rates for comparable rentals, the inability to collect rent due to bankruptcy or insolvency of tenants and the costs resulting from periodic maintenance, repair and re-letting.

We face increasing competition in the PRC property market.

In recent years, a large number of property developers have undertaken property development and project investment in the PRC, especially in major cities where our projects are or are going to be located. Intense competition among property developers in the PRC for land, financing, construction materials and skilled management and human resources may cause increase in the costs for land acquisition and construction, oversupply of properties available for sale, decrease in property prices, slowdown in the rate at which new property developments are approved or reviewed by the relevant PRC government authorities and increase in administrative costs for hiring or retaining qualified contractors and personnel. Although we aim to differentiate ourselves and our offerings from our competitors through various strategic initiatives, increasing competition could result in increased costs, reduced market share and falling property prices, any of which may materially and adversely affect our business, financial condition and results of operations.

We face a number of development, construction and approval risks associated with property development business.

There are a number of construction, financing, operating and other risks associated with construction and property developments. Projects developed by us typically require substantial capital expenditures during the construction phase and usually take many months, sometimes years, before they become operational and generate revenue. The time taken and the costs involved in completing construction can be adversely affected by many factors, including relocation of existing residents and/or demolition of existing structures, unforeseen engineering, design, environmental or geographic problems, shortages of materials, equipment and labour, adverse weather conditions, natural disasters, labour disputes, reliance on and disputes with contractors and subcontractors, construction accidents, discovery of artifacts in the construction site, changes in governmental policies and other unforeseen circumstances. Any of these circumstances could give rise to delays in the completion of construction or to cost overruns.

The property industry in the PRC is heavily regulated by the PRC government. Property developers in China must comply with various requirements mandated by national and local laws and regulations, including the policies and procedures established by local authorities designed for the implementation of such laws and regulations. In order to develop and complete a property development in the PRC, at various stages of the property development, a property developer must obtain various permits, licenses, certificates and other approvals from the relevant administrative authorities including a land use rights certificate, a construction land planning permit, a construction works planning permit, a construction works commencement permit and a pre-sale permit or confirmation of completion and acceptance. We cannot assure you that we will not encounter material delays or other impediments in fulfilling the conditions precedent to the approvals, or that we will be able to adapt to new laws, regulations or policies that may come into effect from time to time with respect to the property industry in general or the particular processes with respect to regulatory approvals. There may also be delays on the part of the relevant regulatory bodies in reviewing our applications and granting approvals. Delays in the process of obtaining, or a failure to obtain, the requisite licenses, permits or approvals from government agencies or authorities may increase the cost or delay or prevent the commencement of a project, which could adversely affect our financial condition. In 2018 we received an administrative penalty in the amount of approximately RMB1 million for commencing construction before obtaining relevant construction works commencement permits.

Construction delays or failure to complete the construction of a project according to its planned specifications, schedule or budget as a result of the above factors may affect our financial condition and results of operations and may also cause damage to our reputation. In addition, if a pre-sold property development is not completed on time, the purchaser may be entitled to damages for late delivery. We cannot assure you that we will not experience any significant delays in completion or delivery or that we will not be subject to any liabilities for any such delays. Any delay in completion of our property developments could have a material adverse effect on our business, financial condition and results of operations.

The terms on which bank mortgages are made available to our customers, if at all, may affect our sales.

Most of the purchasers of our properties rely on mortgage financing from banks. An increase in interest rates may significantly increase the cost of mortgage financing, thus reducing the attractiveness of mortgages as a source of financing for property purchases and adversely affecting the affordability of residential properties. In addition, the PRC government and commercial banks may also increase down payment requirements, impose other conditions or otherwise change the regulatory framework in a manner that would make mortgage financing unattractive or unavailable to potential property purchasers.

Each of the China Banking and Insurance Regulatory Commission (the “CBIRC”) and the PBOC has issued regulations on, among other things, the minimum interest rate, down payment and minimum interest for mortgage facilities. In the event that mortgage facilities for property purchases becomes more difficult to obtain or that the costs of such financing increases, many of our prospective customers who rely on such financing may not be able to purchase our properties, which in turn will materially and adversely affect our business, financial condition and results of operations.

If there are changes in laws, regulations, policies and practices that would prohibit property developers from providing guarantees to banks in respect of mortgages offered to property purchasers and these banks would not accept any alternative guarantees by other third parties, or if no third party is available in the market to provide such guarantees, it may become more difficult for property purchasers to obtain mortgages from banks during pre-sales. Such difficulties in financing could result in a substantially lower rate of pre-sales of our properties, which could adversely affect our business, financial condition and results of operations. We are not aware of any impending changes in laws, regulations, policies or practices which will prohibit such practice in the PRC. However, we cannot assure you that such changes in laws, regulations, policies or practices will not occur in the future.

We may be required to forfeit land to the PRC government in the event of failing to comply with the terms of the land grant contracts, approvals, or the requirements of the relevant certificates.

Under the PRC laws and regulations, if a property developer fails to develop land according to the terms of the land grant contracts, approvals, or the requirements of the relevant certificates including those relating to payment of land premium and other fees, the designated use of land and schedule for commencing and completing the developments, the relevant government authorities may issue a warning to or impose a penalty on the developer or require the developer to pay the liquidated damages or forfeit the land use rights. Any such violation of the terms of the land grant contracts, approvals, or the requirements of the relevant certificates may also restrict our ability to participate, or prevent us from participating in future land bidding.

Specifically, under current PRC laws and regulations, if we fail to pay any outstanding land grant premium by stipulated deadlines, we may be subject to late payment penalties at the rate of 0.1 per cent. of the unpaid land premium per day, or the repossession of the land by the government. Additionally, if we fail to commence development for more than one year from the commencement date stipulated in the land grant contracts, approvals, or the requirements of the relevant certificates the relevant PRC land bureau may serve a warning notice to the property developers and impose an idle land fee on the land of up to 20 per cent. of the land grant premium. If we fail to commence development for more than two years from the commencement date stipulated in the land grant contracts, approvals, or the requirements of the relevant certificates our land use rights are subject to forfeiture to the PRC government unless the delay in development is caused by government actions or force majeure. Moreover, even if we commence the land development in accordance with the land grant contracts, approvals, or the requirements of the relevant certificates the relevant land will nonetheless be treated as idle land if our developed land is less than one-third of the total land area, or if our total capital expenditure on the land development is less than one-fourth of the total amount expected to be invested in the project in the project proposal, or if the development of the land is suspended for over a year without government approval. For further details, please see “**Regulation**”.

There are specific enforcement rules on idle land and other aspects of land grant contracts, approvals, or the requirements of the relevant certificates in many cities in the PRC, and the local authorities enforce such rules in accordance with instructions from the central government of the PRC. Where a right-holder to use a plot of state-owned land for construction conducts malicious hoarding or speculation of the land, current measures in place require the competent land authorities not to accept any application for new land use rights or process any title transfer transaction, mortgage transaction, lease transaction or land registration applications in respect of any idle land before such holder completes the requisite rectification procedures. We cannot assure you that circumstances leading to the repossession of land or delays in the

completion of a property development will not arise in the future. If our land is repossessed, we will not be able to continue our property development on the forfeited land, recover the costs incurred from the initial acquisition of the repossessed land or recover development costs and other costs incurred up to the date of the repossession. In addition, we cannot assure you that regulations relating to idle land or other aspects of land grant contracts, approvals, or the requirements of the relevant certificates will not become more restrictive or punitive in the future. If we fail to comply with the terms of any land grant contracts as a result of delays in project development or other factors, we may lose the opportunity to develop our project, as well as our past investment in the land, which could materially and adversely affect our business, financial condition and results of operations.

During the years ended 31 December 2018 and 2019 and the six months ended 30 June 2020, we were not subject to any penalty for late payment of land premiums and were not required to forfeit any land nor have we received any warning from the relevant governmental authorities or paid any penalties as a result of failing to commence development within two years of the relevant land grant contracts, approvals, or the requirements of the relevant certificates. While we have complied with the development plans and payment obligations, there have been circumstances where the development of a portion of land for which we were granted land use rights was delayed beyond the date stipulated in the relevant land grant contracts, approvals, or the requirements of the relevant certificates. As confirmed by relevant government authorities, such delays were caused by force majeure, acts of government or preliminary work that was required to be undertaken prior to the commencement of development. According to relevant PRC laws and regulations, any delay in the commencement of development that can be attributed to any of the above factors will not result in the forfeiture of idle land and land grant deposits, or the imposition of any other penalty. However, we cannot assure you that circumstances leading to forfeiture of land or delays in the completion of a property development may not arise in the future.

In addition, as of the date of this Offering Circular, some of our material PRC subsidiaries have failed to develop lands in line with the terms of the land grant contracts, approvals, or the requirements of the relevant certificates due to various reasons including the government's rezoning plan of the lands and litigations with third parties related to such land development. However, none of such PRC subsidiaries has been notified or informed by relevant government authorities that such parcels of lands have been identified as idle lands. We cannot assure you that such parcels of lands will not be identified as idle lands by relevant government authorities in the future. If we are required to forfeit land due to idle land identified by competent government authorities, we will not be able to continue our property development on the forfeited land, recover the costs incurred for the initial acquisition of the forfeited land or recover development costs and other costs incurred up to the date of forfeiture.

PRC and Hong Kong government policies, regulations and measures intended to curtail the overheating of the property market may materially and adversely affect our business, results of operations and financial condition.

Along with the economic growth in the PRC, investments in the property sectors have increased significantly in the past few years. In response to concerns over the scale of the increase in property investments, the PRC government has introduced policies to curtail the overheating of the domestic property development. We cannot assure you that the governmental authorities will not require us to modify our development plans or that these new measures will not adversely impact our business due to the uncertainties involved in implementing these new measures. Although the various control measures are intended to promote more balanced property development in the long term, we cannot assure you that these measures will not adversely affect the development and sales of our properties. Many of the property industry policies carried out by the PRC government are unprecedented and are expected to be amended and revised over time. Other political, economic and social factors may also lead to further adjustments and changes of such policies. The PRC government could adopt additional and more stringent industry policies, regulations and measures in the future, which could further slow down property development in China.

The Hong Kong government has also adopted and may adopt more stringent policies to curtail the overheating of the property market. For example, the Hong Kong government has implemented a series of policies and regulations such as the modified ad valorem stamp duty, the special stamp duty and the buyer's stamp duty to cool down speculative purchasing demands for residential properties in Hong Kong. Our financial condition and results of operations may be materially affected by these factors.

If we fail to adapt our operations to new policies, regulations and measures that may come into effect from time to time with respect to the real property industry, or such policy changes disrupt our business, reduce our sales or average selling prices, or cause us to incur additional costs, our business prospects, results of operations and financial condition may be materially and adversely affected.

We are required to deliver individual property ownership certificates in a timely manner and the failure to do so may result in claims against us.

Property developers are typically required to deliver to purchasers the relevant individual property ownership certificates within one to two years after delivery of the property or within a time frame set out in the relevant sale and purchase agreement. Property developers, including us, generally elect to specify the deadline for the delivery of the individual property ownership certificates in the sale and purchase agreements to allow sufficient time for the application and approval processes. Under current regulations, property developers are required to submit requisite governmental approvals in connection with their property developments, including a land use rights certificate, a certificate evidencing that construction has met the requirements of relevant planning permits, a certificate evidencing that construction has completed and a property survey report, to the local bureau of land resources and housing administration after the receipt of the completion and acceptance certificate for the relevant properties and to apply for the general property ownership certificate in respect of these properties. Property developers are then required to submit, within regulated periods after delivery of the properties, the relevant property sale and purchase agreements, identification documents of the purchasers, proof for payment of deed tax, and the general property ownership certificate, to the bureau for review prior to the issuance of the individual property ownership certificates in respect of the properties purchased by the respective purchasers. Delays by the various administrative authorities in reviewing the application and granting approval as well as other factors may affect timely delivery of the general as well as individual property ownership certificates. Property developers, including us, may become liable for monetary penalties to purchasers for late delivery of the individual property ownership certificates due to delays in the administrative approval processes or for any other reason beyond our control. We cannot assure you that we will be able to timely deliver all property ownership certificates in the future or that we will not be subject to any liabilities as a result of any late deliveries of property ownership certificates.

We may be subject to resettlement compensation payable with certain property developments in the future which may materially and adversely affect our business, financial condition and results of operations.

Land parcels acquired by property developers for future development may have existing buildings or other structures or be occupied by third parties. In accordance with the Building on State-owned Land Expropriation and Compensation Regulation (國有土地上房屋徵收與補償條例) promulgated by the State Council on 21 January 2011, and applicable local regulations, the relevant government authority at city or county level in the PRC is required to enter into a written agreement with the owners or residents of existing buildings subject to demolition for development to provide compensation for their relocation and resettlement. The compensation payable is calculated in accordance with pre-set formula determined by the relevant provincial or municipal authorities and is ultimately borne by the property developers. There is no assurance that these authorities will not change the compensation formula. If such compensation formula is changed and the levels of compensation increased, land acquisition costs for property developers may be subject to substantial increases. In addition, if property developers or the local government fail to reach an agreement over compensation with the owners or residents of the buildings subject to demolition, any party may apply to the relevant housing resettlement authorities for a ruling on the amount of compensation, which may delay a project's timetable. Such delays may lead to an increase

in cost and a delay in the expected cash inflow resulting from pre-sales of the relevant projects. If we purchase land parcels in the future and become subject to such regulations, and if we experience an increase in resettlement costs or experience delay due to our inability to reach a resettlement agreement, our business, financial condition and results of operations may be materially and adversely affected.

The state of economy in Hong Kong may adversely affect our performance and financial condition.

The Group has established operations in Hong Kong. In 2019, with the official launch of the outline plan for Guangdong-Hong Kong-Macao Greater Bay Area, a number of policy optimizations was implemented and the property market in Hong Kong continued to develop steadily. However, if Hong Kong experiences any adverse economic conditions due to events beyond our control, such as a local economic downturn, natural disasters, contagious disease outbreaks, terrorist attacks, or if the local authorities adopt regulations that place additional restrictions or burdens on us or on our industry in general, our overall business and results of operations may be materially and adversely affected.

According to the Office of the Government Economist, the Hong Kong economy saw some improvement in the third quarter of 2020, having gone through a rough patch in the second quarter. However, the level of economic activity in the third quarter, on a seasonally adjusted basis, was still well below the pre-recession level. The overall investment expenditure continued to fall visibly, reflecting the business environment and weak construction activity. The Office of the Government Economist expects that amid the highly uncertain external environment, there remains tremendous uncertainties in Hong Kong's economic outlook, which may ultimately adversely impact our business in Hong Kong.

Our performance and financial condition may be affected by the protests and other social activities in Hong Kong.

Since June 2019, there had been a series of protests and social activities in Hong Kong. If the protests and social activities persist, the construction industry could be adversely affected. It may also lead to delay in the award of the potential projects bid by us or affect the progress of our projects, which may in turn have an adverse impact on our business, financial condition and results of operations.

Risks Relating to the PRC

Changes in the PRC's economic, political and social conditions as well as governmental policies could affect us.

The economy of the PRC differs from the economies of most developed countries in many respects, including: (i) economic and political structure; (ii) level of development; (iii) growth rate; control of foreign exchange; and (v) allocation of resources.

While the PRC government has implemented economic reform measures emphasising utilisation of market forces in the development of the PRC economy and the PRC economy has experienced significant growth in the past 30 years, growth has been uneven, both geographically and among different sectors of the economy. The PRC government authorities from time to time implement various macroeconomic and other policies and measures, including contractionary or expansionary policies and measures at times of, or in anticipation of, changes in PRC's economic conditions. In addition, the PRC government continues to regulate industry development by imposing top-down policies and control over the PRC's economic growth through various means such as the allocation of resources, monetary policy, control over foreign currency denominated payment obligations and provision of preferential treatment to particular industries and companies. Economic reform measures, however, may be adjusted, modified or applied inconsistently from industry to industry or across different regions of the country. Although we believe the reforms will have a positive effect on our overall and long term development, it cannot predict whether changes in the PRC's economic, policies and the relevant laws, regulations and rules of the PRC will have any material adverse effect on our current or future business, financial condition and results of operations.

The enforcement of regulations on land appreciation tax (“LAT”) by the PRC tax authorities may materially and adversely affect our profitability and cash flow position.

Our properties developed for sale are subject to LAT. According to the requirements of the Provisional Regulations of the PRC on Land Appreciation Tax (中華人民共和國土地增值稅暫行條例) issued by the State Council and effective from 1 January 1994, the Detailed Implementation Rules on the Provisional Regulations of the PRC on Land Appreciation Tax (中華人民共和國土地增值稅暫行條例實施細則) issued by the Ministry of Finance and effective from 27 January 1995, all entities and individuals receiving net profits from the sale or transfer of state-owned land use rights, buildings and their attached facilities are required to pay LAT, which is levied at progressive rates from 30 per cent. to 60 per cent.. On 28 December 2006, the State Administration of Taxation of the PRC (the “SAT”) issued the Notice in Relation to the Settlement of LAT levied on Real Estate Development Enterprises (國家稅務總局關於房地產開發企業土地增值稅清算管理有關問題的通知, the “LAT Notice”), which became effective on 1 February 2007. The LAT Notice sets forth, among other things, methods of calculating LAT and a time frame for settlement. According to the LAT Notice, local provincial tax authorities can formulate their own implementation rules. On 12 May 2009, the SAT issued the Provisions on Administration of the Settlement of Land Appreciation Tax (土地增值稅清算管理規程), which became effective on 1 June 2009 and stipulates in detail the procedures for settlement of LAT and methods of calculating LAT.

We believe we have accrued all LAT payable on our property sales and transfers in accordance with the progressive rates specified in relevant PRC tax laws, less amounts previously paid under the levy method applied by relevant PRC local tax authorities. However, provisioning for LAT requires our management to use a significant amount of judgment with respect to, among other things, the anticipated total proceeds to be derived from the sale of the entire phase of the project or the entire project, the total appreciation of land value and the various deductible items. As a result, the relevant PRC local tax authorities may not agree with our estimates or the basis on which we calculate our LAT liabilities. In certain circumstances, if the LAT provisions we have made are substantially lower than the actual LAT amounts assessed by the relevant PRC local tax authorities in the future, our results of operations and cash flow will be materially and adversely affected.

We may be deemed a PRC resident enterprise under the Enterprise Income Tax Law (企業所得稅法, the “EIT Law”) and be subject to the PRC taxation on our worldwide income and the interest and other similar amounts on the Notes as well as gains realised by sales of Notes may also be subject to PRC withholding tax.

According to the EIT Law which took effect on 1 January 2008 and was amended on 24 February 2017 and 29 December 2018 and the implementation regulations, enterprises established outside of the PRC whose “de facto management bodies” are located in the PRC are considered to be PRC resident enterprises and will generally be subject to the uniform 25 per cent. enterprise income tax rate on their global taxable income. “De facto management body” is defined as the body that has the significant and overall management and control over the business, personnel, accounts and properties of an enterprise. It is currently unclear whether global income would exclude income that was generated by PRC subsidiaries, and under what situations an enterprise’s “de facto management body” would be considered to be located in the PRC.

In April 2009, the SAT promulgated the Circular on Identifying Chinese-Controlled Offshore Enterprises as Chinese Resident Enterprises in Accordance with Criteria for Determining Place of Effective Management (關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知) which defines the criteria for determining “de facto management bodies” for foreign enterprises controlled by PRC enterprises. These criteria include: (i) the enterprise’s day-to-day operational management is primarily exercised in the PRC; (ii) decisions relating to the enterprise’s financial and human resource matters are made or subject to approval by organizations or personnel in the PRC; (iii) the enterprise’s primary assets, accounting books and records, company seals, and board and shareholders’ meeting minutes are located or maintained in the PRC; and (iv) 50 per cent. or more of voting board members or senior executives of the enterprise habitually reside in the PRC. However, the circular does not define “de facto management body” for enterprises established offshore by private individuals or foreign enterprises such as the Issuer and the Guarantor. As such, there is uncertainty whether the Issuer and the Guarantor will be deemed to be a PRC resident enterprise for the purposes of the EIT Law.

Part of the management of the Issuer and the Guarantor is currently based in China, and therefore, the Issuer and the Guarantor may be treated as a PRC resident enterprise for enterprise income tax purposes. However, there is no clear standard published by the tax authorities for making such a determination. The tax consequences of such treatment are currently not entirely clear, as they will depend on the implementation regulations and on how local tax authorities apply or enforce the EIT Law or the implementation regulations. There is uncertainty as to whether the Issuer or the Guarantor will be treated as a PRC resident enterprise for the purpose of the EIT Law, any aforesaid circulars or any amended regulations in the future. However, as at the date of this Offering Circular, neither the Issuer nor the Guarantor has been notified or informed by the PRC tax authorities that it is considered as a PRC resident enterprise for the purposes of the EIT Law.

If relevant PRC tax authorities decide in accordance with applicable PRC laws on taxation that the Issuer or the Guarantor is a PRC resident enterprise, the Issuer or the Guarantor, as the case may be, will be subject to enterprise income tax at the rate of 25 per cent. on its worldwide income, which may adversely affect the Issuer or the Guarantor's profitability and distributable profit to shareholders. Furthermore, the Issuer or the Guarantor, as the case may be, would be obligated to withhold PRC income tax of 10 per cent. or less under applicable double taxation treatment on payments of interest and certain other amounts on the Notes to holders that are PRC non-resident enterprises as such income would be regarded as being derived from sources within the PRC. In addition, if the Issuer or the Guarantor fail to withhold such tax in accordance with applicable PRC tax law, the Issuer or the Guarantor, as the case may be, may be subject to penalties ranging from 50 per cent. to 300 per cent. of the unpaid tax amount. Under the EIT Law and its implementation regulations, in the event that the Issuer or the Guarantor is deemed to be a PRC resident enterprise by the PRC tax authorities, capital gain realised by a PRC non-resident enterprise from the transfer of the Notes might be regarded as being derived from sources within the PRC and, accordingly, might be subject to PRC enterprise income tax. However, there remains uncertainty as to whether the gains realised from the transfer of the Notes between holders or investors incorporated outside of the PRC would be treated as income derived from sources within the PRC and be subject to PRC enterprise income tax. This will depend on how the PRC tax authorities interpret, apply or enforce the EIT Law and its implementation regulations. If such gains are subject to PRC enterprise income tax, the 10 per cent. enterprise income rate will apply unless there is an applicable tax treaty or arrangement that reduces or exempts such income tax. The taxable income will be the balance of the total income obtained from the transfer of the Notes minus all costs and expenses that are permitted to be deducted from the income under PRC tax laws.

The full-fledged levy of value added tax on revenues from a comprehensive list of service sectors may subject our revenues to a higher average tax rate, and the interest income and other income in the nature of interest received by a non-PRC resident holder of the Notes may be subject to withholding of value added tax at a rate of 6 per cent. plus related surcharges under applicable PRC Law on taxation.

Pursuant to the Circular on Comprehensively Promoting the Pilot Program of the Collection of Value-added Tax in Lieu of Business Tax (關於全面推開營業稅改徵增值稅試點的通知) issued on 23 March 2016 and implemented on 1 May 2016 ("Circular 36") by the Ministry of Finance and SAT, effective from 1 May 2016, the Circular on Value-added Tax Policies for Financial, Real Estate Development, Education Ancillary Service and Other Services (財政部、國家稅務總局關於明確金融房地產開發教育輔助服務等增值稅政策的通知) jointly issued by the Ministry of Finance and SAT on 21 December 2016 with retroactive effect (excluding Article 17 thereof) as of 1 May 2016, the Interim Value-Added Tax Regulations of the People's Republic of China (中華人民共和國增值稅暫行條例) promulgated by the State Council, and revised and effective on 19 November 2017, and other supplemental and relevant rules and regulations (the "VAT Law"), PRC tax authorities have started imposing value added tax ("VAT") on revenues from various service sectors, including real estate, construction, financial services and insurance, as well as other lifestyle service sectors, to replace the business tax that co-existed with VAT for over 20 years. Since the issuance of Circular 36, the Ministry of Finance and SAT have subsequently issued a series of tax circulars in March and April 2016 to implement the collection of VAT on revenues from construction, real estate, financial services and lifestyle services. Based on the Decision of the State Council to Repeal the Interim Regulation of the PRC on Business Tax and Amend the Interim Regulation of the PRC on Value-Added Tax (國務院關於廢止〈中華人民共和國營業稅暫行條例〉和修改〈中華人民共和國增值稅暫行條例〉的決定) issued by the State Council on 19 November 2017, the business tax is no longer applicable.

Entities and individuals selling real property or providing services in the PRC shall be identified as taxpayers of the VAT, and shall pay the VAT in accordance with the VAT Law. Such services are treated as being provided within the PRC where either the service provider or the service recipient is located in the PRC. The services which are subject to the VAT include the provision of financial services which refers to the business activities of financial and insurance operation, including loan processing services, financial services of direct charges, insurance services and the transfer of financial instruments. “Loan processing” refers to the activity of lending capital for another’s use and receiving the interest income thereon and among others, the interest (principal-guaranteed gains, remunerations, fund occupation fees and compensations, which refer to investment returns whose principal can be fully recovered upon maturity as explicitly committed under the relevant contract) obtained during the holding period (including upon maturity) of financial products shall be treated as interest income related to loan processing and thus shall be subject to the VAT while such gains, remunerations, fund occupation fees and compensations obtained during the holding period (including upon maturity) of financial products shall not be treated as interest income or income in the nature of interest related to loan processing if their principal is not guaranteed and shall thus not be subject to VAT. The VAT Law are relatively new and there is uncertainty as to whether the VAT will be applicable to the payments of interest and other income in the nature of interest on the Notes by Issuer and/or the Guarantor who are incorporated outside the PRC to investors who are located outside of the PRC as this will depend on how the PRC tax authorities interpret, apply or enforce the VAT Law. If the issuance and/or holding of the Notes is treated as provision of financial services in the PRC to the Issuer or the Guarantor by the holders of the Notes, and if the interest income or other income in the nature of interest from or in connection with the Notes is regarded as “principal-guaranteed gains”, in each case by relevant tax authorities in the PRC for the purpose of the VAT Law, the interest income and other income in the nature of interest received by a non-PRC resident holder of the Notes may be subject to withholding of the VAT at a rate of 6 per cent. plus related surcharges under applicable PRC tax laws including the PRC Interim Regulations on Municipal Maintenance Tax (中華人民共和國城市維護建設稅暫行條例) promulgated by the State Council on 8 February 1985 and amended with effect on 8 January 2011, the Interim Provisions on Imposition of Education Surcharge (徵收教育費附加的暫行規定) promulgated by the State Council on 28 April 1986 and amended on 7 June 1990, on 20 August 2005 and on 8 January 2011, the Notice on Unifying the System of Municipal Maintenance Tax and Education Surcharge Paid by Domestic and Foreign-invested Enterprises and Individuals (國務院關於統一內外資企業和個人城市維護建設稅和教育費附加制度的通知) promulgated by the State Council on 18 October 2010 and the Notice to Unify the Relevant Issues on Policies of Levying Local Educational Surcharge (財政部關於統一地方教育附加政策有關問題的通知) promulgated by the Ministry of Finance on 7 November 2010. In addition, as far as we know, the VAT is unlikely to apply to gains realised upon any transfer of Notes between holders or investors located outside of the PRC, but there is uncertainty as to the applicability of the VAT if either the seller or buyer of the Notes is or deemed to be located inside the PRC by PRC tax authorities for the purpose of the VAT Law.

The VAT rates applicable to us may be generally higher than the business tax rate we were subject to prior to the implementation of Circular 36. For example, the VAT rate for the sale of self-developed real estate projects will be increased from 5 per cent. (the applicable business tax rate prior to 1 May 2016 and the applicable VAT rate for sale of “old projects,” i.e. real property the construction of which commenced prior to 1 May 2016) to 11 per cent. according to Circular 36. On 28 March 2018, Premier Li Keqiang presided over an executive meeting of State Council which decided that, among others, the VAT rate for taxpayers providing transportation, construction, basic telecommunication and other services will be further reduced from 11 per cent. to 10 per cent. from 1 May 2018. Detailed rules in respect of such reform are yet to be issued by competent government authorities. Unlike business tax, the VAT will only be imposed on added value, which means the input tax incurred from our construction and real estate can be offset from our output tax.

We may be unable to obtain and remit foreign currency.

Our ability to satisfy obligations under the Notes depends solely upon the ability of our PRC subsidiaries to obtain and remit sufficient foreign currency to pay dividends to the Company and, if applicable, to repay loans to the Issuer or the Company. The PRC government imposes controls on the

convertibility of Renminbi into foreign currencies and, in certain cases, the remittance of currency to jurisdictions outside the PRC. Under existing PRC foreign exchange regulations, payments of certain current account items can be made in foreign currencies without prior approval from the local branch of SAFE, by complying with certain procedural requirements. However, approval from the appropriate government authorities is required where Renminbi is to be converted into foreign currency and remitted to a jurisdiction outside the PRC to pay certain capital account items. The PRC government may also, at its discretion, restrict access to foreign currencies for current account transactions in the future. Our PRC subsidiaries must present certain documents to SAFE, its authorised branch, or the designated foreign exchange bank, for approval before they can obtain and remit foreign currencies out of the PRC to pay certain capital account items, including, in the case of the remittance of any dividends more than US\$50,000, board resolutions on distribution of dividends, audited financial statements, completed PRC tax filing forms which have been filed with competent PRC tax authorities etc. SAFE, its authorised branch, and/or the designated foreign exchange banks, in principle, would not review any documents if the dividend amount to be remitted outside of PRC is equivalent to US\$50,000 or less. Prior to payment of interest and principal on any shareholder loan that we make to our PRC subsidiaries, the relevant PRC subsidiary must present evidence showing that the registration of the loan with SAFE has been completed, together with the evidence of payment of the 10 per cent. withholding tax or lower tax treaty rate on the interest payable in respect of such shareholder loan. If the PRC foreign exchange control system prevents the Company from obtaining sufficient foreign currency, or if any of our PRC subsidiaries for any reason fails to satisfy the Issuer or any of the PRC legal requirements for remitting foreign currency payments, such PRC subsidiary will be unable to pay the Issuer or the Company dividends or interest and principal on loans, which may affect the Issuer's or the Company's ability to satisfy its obligations under the Notes.

PRC regulations on loans to and direct investments in PRC entities by offshore holding companies may delay or prevent us from using the proceeds of the issue of the Notes to make loans or additional capital contributions to our PRC operating subsidiaries.

We may decide to finance our PRC subsidiaries by means of shareholder loans and/or capital contributions. According to the relevant PRC regulations on foreign-invested enterprises in the PRC, loans made to or investments by capital contributions in our PRC subsidiaries are subject to approval by or registration with relevant governmental authorities in the PRC. We may not be able to obtain these government approvals and/or registrations on a timely basis, or at all. If we fail to obtain such approvals and/or registrations, our ability to use the proceeds of the Notes to finance our PRC subsidiaries and to capitalise our operations in the PRC may be negatively affected, which could adversely affect our liquidity and our ability to fund and expand our business.

Fluctuations in the value of Renminbi may have an adverse effect on our financial condition and results of operations.

Our turnover, costs and our financial assets are mostly denominated in Renminbi, while dividends payable to shareholders will be in Hong Kong dollars. We also have foreign currency denominated financing instruments. Therefore, a depreciation in the Renminbi would adversely affect the value of any dividends we pay to our shareholders in foreign currencies, or require us to use more Renminbi funds to service the same amount of any foreign debt.

The value of Renminbi against the U.S. dollar and other currencies may fluctuate and is affected by, among other factors, changes in international and national political and economic conditions and the foreign exchange policy adopted by the PRC government. On 21 July 2005, the PRC government changed its policy of attaching the value of Renminbi to the U.S. dollar. Under the new policy, Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. Further, from 18 May 2007, the PBOC enlarged the floating band for the trading prices in the inter-bank foreign exchange market of Renminbi against the U.S. dollar from 0.3 per cent. to 0.5 per cent. around the central parity rate, effective on 21 May 2007. Following the removal of the U.S. dollar peg, Renminbi appreciated more than 20 per cent. against the U.S. dollar over the following three years. Since July 2008,

Renminbi has traded at a relatively stable level within a narrow range against the U.S. dollar, but RMB has again begun gradual further appreciation against the U.S. dollar during the period from the middle of 2010 to the end of 2013. The floating band was further widened to 1.0 per cent. on 16 April 2012 and to 2.0 per cent. on 17 March 2014. These changes in currency policy resulted in Renminbi appreciating against the U.S. dollar. In August 2015, the PBOC authorised market-makers to provide central parity quotations to the China Foreign Exchange Trading Centre with reference to the inter-bank foreign exchange market closing rate of the previous trading date, the supply and demand for foreign exchange, as well as changes in major international currency exchange rates. Shortly after the announcement, the central parity rate of the Renminbi against the U.S. dollar depreciated substantially.

Fluctuations in Renminbi exchange rates are affected by, among other things, changes in political and economic conditions and China's foreign exchange regime and policy. The Renminbi has been unpegged from the U.S. dollar since July 2005 and, although the PBOC regularly intervenes in the foreign exchange market to limit fluctuations in Renminbi exchange rates, the Renminbi may appreciate or depreciate significantly in value against the U.S. dollar in the future. Any fluctuation in the exchange rate between Renminbi and the U.S. dollar or other currencies could result in foreign currency translation losses for financial reporting purposes.

We rely principally on dividends paid by our subsidiaries to fund any cash and financing requirements we may have; any limitation on the ability of our PRC subsidiaries to pay dividends to us could have a material adverse effect on our ability to conduct our business and such dividends may be subject to PRC taxation.

We are a holding company and rely principally on dividends paid by our subsidiaries for cash requirements, including the funds necessary to service any debt we may incur, including the Notes. The ability of our direct and indirect subsidiaries to pay dividends to their shareholders is subject to applicable laws and restrictions contained in the debt instruments and obligations of such subsidiaries. For example, certain financing agreements of our subsidiaries contain covenants that limit their ability to pay dividends to us if any loan under such financing agreements remains outstanding or if there is a default in such financing agreement, or unless certain thresholds are satisfied or, in certain cases, limit their ability to pay dividends to us if their after-tax profits are nil or negative. Furthermore, under applicable PRC laws, rules and regulations, payment of dividends by our PRC subsidiaries is permitted only out of their retained earnings, if any, determined in accordance with PRC accounting standards. Under PRC laws, rules and regulations, all of our PRC subsidiaries are required to set aside at least 10 per cent. of their after-tax profit based on PRC accounting standards each year to their respective statutory capital reserve funds until the accumulative amount of such reserves reaches 50 per cent. of their respective registered capital. As a result, all of our PRC subsidiaries are restricted in their ability to transfer a portion of their net income to us whether in the form of dividends, loans or advances. Any limitation on the ability of our subsidiaries to pay dividends to us could materially and adversely limit our ability to grow, pay dividends or otherwise fund and conduct our business.

Prior to 31 December 2007, dividends paid by PRC enterprises to "non-resident enterprises", such as dividends that our PRC subsidiaries paid us, were exempt from PRC withholding tax. After 1 January 2008, under the EIT Law and its implementing regulations, a PRC income tax rate of 10 per cent. became applicable to such dividends, subject to the application of any relevant income tax treaty that the PRC is a party to. For instance, pursuant to the Arrangement between Mainland China and Hong Kong for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Income Taxes (the "**Avoidance of Double Taxation Agreement**"), a company incorporated in Hong Kong is subject to withholding income tax at a rate of 5 per cent. on dividends that it receives from its PRC subsidiaries in which it holds 25 per cent. or more of the equity interest at the time of distribution, subject to approval from the relevant tax authority, or at a rate of 10 per cent. for those subsidiaries in which it holds less than 25 per cent. of the equity interest. However, a circular issued by the SAT on 27 October 2009 states that tax treaty benefits will not apply to "shell companies" that do not have substantive business activities in the jurisdictions of their incorporation, which are required to be jurisdictions that have a relevant tax treaty

with the PRC, and provide for a reduced withholding tax rate. In addition, the SAT issued the Announcement of the State Administration of Taxation on Issues concerning “Beneficial Owners” in Tax Treaties (國家稅務總局關於稅收協定中“受益所有人”有關問題的公告) on 3 February 2018, which will become effective and replace the aforesaid circular issued by the SAT on 27 October 2009 as of 1 April 2018. According to the new SAT announcement, when establishing whether an enterprise incorporated offshore constitute an eligible “beneficial owner” or not in relation to relevant tax treaties, PRC tax authorities will take into account various factors. There is uncertainty whether we will be deemed as eligible “beneficial owner” in relation to relevant tax treaties under the new SAT announcement. If we are not deemed as eligible “beneficial owner” in relation to the Avoidance of Double Taxation Agreement for the purpose of the new SAT announcement, any dividend that we receive from our PRC subsidiaries may no longer be able to benefit from the withholding tax rate of 5 per cent., which could result in additional taxes that our PRC subsidiaries would be required to pay, and could affect their payment of dividends to us.

It may be difficult to enforce judgments obtained from non-PRC courts in PRC.

The majority of our business is in the PRC. We may be required to enforce in the PRC judgments obtained from courts of other jurisdictions. A judgment of a court of another jurisdiction may be reciprocally recognised or enforced in the PRC if that jurisdiction has a treaty with the PRC or if judgments of the PRC courts have been recognised before in that jurisdiction, subject to the satisfaction of prescribed requirements. The PRC does not have treaties providing for the reciprocal acknowledgement and enforcement of judgments of courts with the United States and most other western countries. As a result, recognition and enforcement in the PRC of judgments of a court in any of these jurisdictions may be difficult.

We face risks associated with uncertainties with respect to the PRC legal system.

As most of properties we develop are located in the PRC, our operation in Mainland China is governed principally by laws and regulations in the PRC. The PRC legal system is based on written statutes. Prior court decisions may be cited as reference but have limited precedential value. Additionally, PRC written statutes are often principle-oriented and require detailed interpretations by the enforcement bodies to further apply and enforce such laws. Since 1979, the PRC government has promulgated laws and regulations in relation to economic matters such as foreign investment, corporate organisation and governance, commerce, taxation and trade, with a view to developing a comprehensive system of commercial law. However, as these laws and regulations are continually evolving in response to changing economic and other conditions, and due to the limited volume of published cases and their non-binding nature, any particular interpretation of the PRC laws and regulations may not be definitive. In addition, the PRC legal system is based in part on government policies and internal rules (some of which are not published on a timely basis, if at all) that some may have a retroactive effect. The PRC may not accord equivalent rights (or protection for such rights) to those rights investors may have expected in countries with more sophisticated real estate laws and regulations. Further, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involve uncertainties, which may limit legal protections available to us. For example, we may have to resort to administrative and court proceedings to enforce legal protections under law or contract. Since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate and predict the outcome of PRC administrative and court proceedings and the enforceability of rights in PRC as compared to more developed legal systems.

The land and real estate laws of the PRC, including laws relating to land title and building ownership regulations and laws applicable to landlords and tenants, are still under development and reform. In recent years, the National People’s Congress (the “NPC”), the State Council, the PRC Ministry of Land and Resources (the “MLR”) and the Ministry of Housing and Urban-Rural Development of the PRC (“MOHURD”) have promulgated a number of laws and regulations and departmental rules relating to

legal problems in respect of land and real estate. In addition, the local people's congresses and local governmental authorities in many provinces and cities have also promulgated various local regulations or local rules. There may be uncertainties in the interpretation and application of these laws, administrative regulations, departmental rules, local regulations and local rules, and we cannot predict the effect of future developments in the PRC legal system, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the pre-emption of local regulations by national laws. These uncertainties could limit the legal protections available to us. In addition, any litigation in PRC may be protracted and result in substantial costs and diversion of our resources and management attention.

Finally, the PRC is geographically large and divided into various provinces and municipalities. As such, legislation or regulations, particularly for local applications, may be enacted without sufficient prior notice or announcement to the public. There is at present also no integrated system in the PRC from which information can be obtained in respect of legal actions, arbitrations or administrative actions. Even if an individual court-by-court search were performed, each court might refused to make the documentation that it holds available for inspection. As a result, the legal protections available to the public under the PRC legal system may be limited.

Acts of God, acts of war, occurrence of epidemics, and other disasters could affect our operations and the national and regional economies in the PRC. In particular, we could be materially and adversely affected by the lingering effects of COVID-19 in the PRC.

We are vulnerable to general economic and social conditions and natural catastrophic events in the PRC that are beyond our control. In particular, an outbreak of any severe infectious disease such as COVID-19, Severe Acute Respiratory Syndrome (SARS), Middle East Respiratory Syndrome (MERS), the H5N1 avian flu or the human swine flu (H1N1) or similar communicable diseases, if uncontrolled, could have a material adverse effect on the overall business operations in the PRC and in economies in which the Group carries out its business.

The outbreak of COVID-19 since December 2019 has brought unprecedented challenges and added uncertainties to the PRC economy. COVID-19 may affect the financial performance and position of the industry of real estate including the construction and delivery of properties, rental revenue and occupancy rate of investment properties, allowance for expected credit losses on trade and other receivables, fair value of investment properties and so on. In the first quarter of 2020, the economy in China was wrecked by the COVID-19 pandemic with a negative growth of 6.8 per cents in its gross domestic product ("GDP"). However, attributable to the effective control of the pandemic, China's economy experienced a robust recovery in the second quarter of 2020 after the resumption of work and production to normal. The declines in consumption and investment continues to narrow. The domestic market in the PRC was generally frozen in February and March of 2020 affected by COVID-19 pandemic followed by gradual recovery since the late March. The transactions of property market became progressively active and the housing demand accumulated during the pandemic period started to release. The property sales shows a sharp rebound since the late March 2020. According to the National Bureau of Statistics, the national sales of commodity housing was approximately 0.69 billion sq.m. in GFA, representing a period-to-period decrease of 8.4 per cent., with a value of RMB6.7 trillion, representing a period-to-period increase of 5.4 per cent. As at the date of this Offering Circular, COVID-19 has not had any material adverse impact on the financial position and operating results of the Group. In the first half of 2020, we had a revenue of RMB23.71 billion, representing an increase of 8.8 per cent. as compare to the same period in 2019; our contracted sales reached RMB37.56 billion, representing an increase of 1.8 per cents. as compare to the same period in 2019. However, if the COVID-19 outbreak continues to develop and persist, there may be the risk of a global financial crisis, an economic recession, a backlash against globalization, a decline in demand and a reduction of liquidity, which will have a material adverse impact on the real estate sector, and, consequently, on our business, financial condition and results of operations. The perception that an outbreak of contagious disease may occur again may also have an adverse effect on general economic

conditions in Asia. Acts of war and terrorist attacks may cause damage or disruption to our properties, and affect the overall economy and real estate markets in the PRC. The potential for war or terrorist attacks may also cause uncertainty and cause our business to be adversely affected in ways that currently cannot be predicted.

Finally, the negative impact of COVID-19 may increase counterparty risks, and increased difficulties in collecting fees, which may negatively impact the Group's cash flows, delay certain projects, and reduce its ability to access capital or increase financing costs.

Risks Relating to the Notes Issued under the Programme

Any failure to complete the relevant filings under the NDRC Circular within the prescribed time frame following the completion of the issue of the Notes may have adverse consequences for the Issuer and/or the Noteholders.

The NDRC issued the NDRC Circular on 14 September 2015, which came into effect on the same day. According to the NDRC Circular, offshore bonds issued by both PRC enterprises and their controlled offshore enterprises or branches shall be regulated by the NDRC Circular. Pursuant to the NDRC Circular, an enterprise shall: (i) apply to the NDRC for the filing and registration procedures prior to the issuance of the bonds; and (ii) shall report the information on the issuance of the bonds to the NDRC within 10 working days after the completion of each issuance. The NDRC Circular is silent on the legal consequences of non-compliance with the pre-issue registration requirement. Similarly, the legal consequences of non-compliance with the post-issue notification requirement under the NDRC Circular is unclear. Please refer to "Regulation-Shareholder Loan and Foreign Debt" for further details. In the worst-case scenario, such non-compliance with the post-issue notification requirement under the NDRC Circular may result in it being unlawful for the Issuer or the Guarantor to perform or comply with any of its obligations under the Notes and the Notes might be subject to enforcement as provided in Condition 10 (*Events of Default*) of the Terms and Conditions of the Notes. Potential investors of the Notes are advised to exercise due caution when making their investment decisions. The Guarantor has undertaken to file or cause to be filed with the NDRC or its local counterpart the particulars of the issue of the Notes and the requisite information and documents in accordance with the NDRC Circular.

The Notes may not be a suitable investment for all investors.

Each potential investor in any Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the relevant Notes, the merits and risks of investing in the relevant Notes and the information contained or incorporated by reference in this Offering Circular, any applicable supplement to this Offering Circular or any Pricing Supplement;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Notes and the impact such investment will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the relevant Notes, including where principal or interest is payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- (iv) understand thoroughly the terms of the relevant Notes and be familiar with the behaviour of any relevant indices and financial markets; and

- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Notes may be complex financial instruments and such instruments may be purchased as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to the purchaser's overall portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact this investment will have on the potential investor's overall investment portfolio.

Additionally, the investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent: (i) the Notes constitute legal investments for such investor; (ii) the Notes can be used as collateral for various types of borrowing; and (iii) other restrictions apply to its purchase of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

Credit ratings of the Programme, the Notes, the Issuer or the Guarantor may not reflect all risks and it may be downgraded or withdrawn.

The Programme is rated "BBB-" by Fitch and "Baa3" by Moody's. These ratings are only correct as at the date of this Offering Circular. Ratings represent the respective opinions of these rating agencies and their respective assessments of the Issuer's ability to perform its obligations under the Notes or the Guarantor's ability to perform its obligations under the Guarantee and credit risks in determining the likelihood that payments will be made when due under the Notes or the Guarantee. Ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A rating is not a recommendation to buy, sell or hold securities. Ratings can be lowered or withdrawn at any time. Neither the Issuer nor the Guarantor is obligated to inform the investors if the ratings are lowered or withdrawn. A reduction or withdrawal of the ratings may adversely affect the market price of the Notes and the Group's ability to access the debt capital markets.

The Notes are subject to modification and the Trustee may waive certain breaches without the consent of the Noteholders.

The Conditions and the Trust Deed contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. In addition, an Extraordinary Resolution (as defined in the Trust Deed) in writing signed by or on behalf of the holders of not less than 90 per cent. of the aggregate principal amount of Notes outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of the holders of Notes duly convened and held. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting or, as the case may be, did not sign the relevant written resolution and Noteholders who voted in a manner contrary to the majority.

The Conditions and the Trust Deed also provide that the Trustee may agree, without the consent of the Noteholders or Couponholders, to: (i) any modification of any of the provisions of the Trust Deed, the Agency Agreement or the Conditions that is in the opinion of the Trustee of a formal, minor or technical nature or is made to correct a manifest error or to comply with any mandatory provision of applicable law or regulation; and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Trust Deed, the Agency Agreement and/or the Conditions that is in the opinion of the Trustee not materially prejudicial to the interests of the Noteholders. Any such modification, authorisation or waiver shall be binding on the Noteholders and the Couponholders and, unless the Trustee otherwise agrees, such modification, authorisation or waiver shall be notified by the Issuer to the Noteholders as soon as practicable.

The Issuer is a special purpose vehicle with no material assets and will need to rely on the other members of the Group to service its obligations under the Notes.

As at the date of this Offering Circular, the Issuer is a special purpose vehicle with no material assets. Pursuant to the terms of the Notes, the Issuer will not, carry on any business activity whatsoever other than in connection with the Notes and Coupons issued or to be issued under the Programme and/or financing activities (such activities shall, for the avoidance of doubt, include but shall not be limited to: (i) the offering, sale or issuance of the Notes and the Coupons under the Programme; (ii) the activities directly related to the establishment and updates of the Programme and the establishment and/or maintenance of the Issuer's corporate existence; and (iii) obtaining loans and/or other financing from banks and/or other financial institutions). Accordingly, the Issuer has limited assets to meet its obligations under the Notes, and its ability to make payments in respect thereof depends upon the receipt of funds from the entity to which it lends the proceeds from the issue of the Notes or support from any other members of the Group.

The Guarantor is a holding company, therefore our ability to make payments under the Guarantee depends upon receipt of distribution from our direct and indirect subsidiaries and payments with respect to the Guarantee are structurally subordinated to liabilities, contingent liabilities and obligations of its subsidiaries.

The Guarantor is a holding company with no material operations, and conduct its operations through subsidiaries in the PRC. The Guarantor's ability to make payments under the Guarantee depends on the receipt of dividends and distributions from the Guarantor's direct and indirect subsidiaries. The ability of such subsidiaries to pay dividends may be subject to applicable laws and regulations. The outstanding indebtedness of the Guarantor's subsidiaries may also contain covenants restricting the ability of such subsidiaries to pay dividends in certain circumstances for so long as such indebtedness remains outstanding. Moreover, percentage interests of the Guarantor in its subsidiaries could be reduced in the future.

In addition, the Notes will not be guaranteed by any subsidiary of the Guarantor. Creditors, including trade creditors of subsidiaries and any holders of preferred shares in such entities, would have a claim on the assets of the subsidiaries that would be prior to the claims of the Noteholders. As a result, the Guarantor's payment obligations under the Guarantee will be effectively subordinated to all existing and future obligations of its subsidiaries, including their obligations under guarantees they have issued or will issue in connection with business operations, and all claims of creditors of its subsidiaries will have priority as to the assets of such entities over the claims of the Guarantor and those of its creditors, including holders of the Notes.

The Notes and the Guarantee are unsecured obligations.

As the Notes and the Guarantee are unsecured obligations, the repayment of the Notes and payment under the Guarantee may be adversely affected if: (i) the Issuer or the Guarantor enters into bankruptcy, liquidation, reorganisation or other winding-up proceedings; (ii) there is a default in payment under the Issuer's or the Guarantor's future secured indebtedness or other unsecured indebtedness; or (iii) there is an acceleration of any of the Issuer's or the Guarantor's indebtedness. If any of these events were to occur, the Issuer's or the Guarantor's assets may not be sufficient to pay amounts due on the Notes.

The Issuer and the Guarantor may be unable to meet their outstanding obligations under the Notes and the Guarantee.

On certain dates, including the occurrence of an early redemption event and at maturity of the Notes, the Issuer may, and at maturity the Issuer will be required to, redeem all of the Notes. If such an event were to occur, the Issuer and the Guarantor may not have sufficient cash in hand and may not be able to arrange financing to redeem the Notes in time, or on acceptable terms, or at all. The ability to redeem the Notes in such event may also be limited by the terms of other debt instruments. Failure to repay, repurchase or redeem tendered Notes would constitute an event of default under the Notes, which may also constitute a default under the terms of the Issuer's or the Guarantor's other indebtedness. Such default could cause related debt to be accelerated after any applicable notice or grace periods.

The Notes do not restrict the Issuer's and the Guarantor's ability to incur additional debt, repurchase the Notes or to take other actions that could negatively impact holders of the Notes.

Neither the Issuer nor the Guarantor is restricted under the terms of the Notes from incurring additional debt, including secured debt, or from repurchasing the Notes. In addition, the covenants applicable to the Notes do not require the Issuer or the Guarantor to achieve or maintain any minimum financial results relating to its financial position or results of operations. The Issuer's and the Guarantor's ability to recapitalise, incur additional debt and take other actions that are not limited by the terms of the Notes could have the effect of diminishing their ability to make payments on the Notes and amortising the Notes when due.

A change in English law which governs the Notes may adversely affect Noteholders.

The Conditions are governed by English law in effect as at the date of issue of the relevant Notes. There is no assurance as to the impact of any possible judicial decision or change to English law or administrative practice after the date of issue of the relevant Notes.

The Notes may be represented by Global Notes or Global Certificates and holders of a beneficial interest in a Global Note or Global Certificate must rely on the procedures of the relevant Clearing System(s).

Notes issued under the Programme may be represented by one or more Global Notes or Global Certificates. Such Global Notes and Global Certificates will be deposited with, or with a nominee of, a common depository for Euroclear and Clearstream, or lodged with the CMU (each of Euroclear, Clearstream and the CMU Service, a "**Clearing System**").

Except in the circumstances described in the relevant Global Note or Global Certificate, investors will not be entitled to receive definitive Notes. The relevant Clearing System(s) will maintain records of the beneficial interests in the Global Notes and the Global Certificates. While the Notes are represented by one or more Global Notes or Global Certificates, investors will be able to trade their beneficial interests only through the Clearing Systems.

While the Notes are represented by one or more Global Notes or Global Certificates, the Issuer, failing whom the Guarantor, will discharge its payment obligations under the Notes by making payments to the relevant Clearing Systems for distribution to their account holders. A holder of a beneficial interest in a Global Note or Global Certificate must rely on the procedures of the relevant Clearing System(s) to receive payments under the relevant Notes. None of the Issuer, the Guarantor, the Trustee or the Agents or any of their respective directors, officers, employees, agents, advisers, representatives or affiliates or any person who controls any of them has any responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes and the Global Certificates. Holders of beneficial interests in the Global Notes and the Global Certificates will not have a direct right to vote in respect of the relevant Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant Clearing System(s) to appoint appropriate proxies.

There could be conflicts of interest arising out of the different roles played by different members in the corporate group of GZ Yuexiu (the "GZ Yuexiu Group"), and activities of other members of the GZ Yuexiu Group may affect the value of the Notes.

The Issuer and the Guarantor are members of the GZ Yuexiu Group. Chong Hing Bank Limited and Yue Xiu Securities Company Limited, both subsidiaries of GZ Yuexiu, are appointed as Arrangers and Dealers for the Programme. Other members in the GZ Yuexiu Group may also issue other competing financial products which may affect the value of the Notes. Investors should also note that potential and actual conflicts of interest may arise from the different roles played by different members in the GZ Yuexiu Group in connection with the Notes and that, although the GZ Yuexiu Group has internal control policies and procedures to minimise any potential conflict of interest, the GZ Yuexiu Group owes no duty to investors to avoid such conflicts, and the economic interests in each role may be adverse to the investors' interests in the Notes.

Noteholders should be aware that Definitive Notes which have a denomination that is not an integral multiple of the minimum denomination may be illiquid and difficult to trade.

Notes may be issued with a minimum denomination. The Pricing Supplement of a Tranche of Notes may provide that, for so long as the Notes are represented by a Global Note or a Global Certificate and the relevant Clearing System(s) so permit, the Notes will be tradable in principal amounts (i) equal to, or integral multiples of, the minimum denomination; and (ii) the minimum denomination plus integral multiples of an amount lower than the minimum denomination.

Definitive Notes will only be issued in the circumstances described in the relevant Global Note or Global Certificate. The Pricing Supplement may provide that, if Definitive Notes are issued, such Notes will be issued in respect of all holdings of Notes equal to or greater than the minimum denomination. However, Noteholders should be aware that Definitive Notes that have a denomination that is not an integral multiple of the minimum denomination may be illiquid and difficult to trade. Definitive Notes will in no circumstances be issued to any person holding Notes in an amount lower than the minimum denomination and such Notes will be cancelled and holders will have no rights against the Issuer (including rights to receive principal or interest or to vote) in respect of such Notes.

The Trustee may request Noteholders to provide an indemnity and/or security and/or prefunding to its satisfaction.

In certain circumstances (including without limitation giving of notice to the Issuer and the Guarantor pursuant to Condition 10 and taking enforcement actions as contemplated in Condition 12), the Trustee may (at its sole discretion) request Noteholders to provide an indemnity and/or security and/or prefunding to its satisfaction before it takes steps and/or actions and/or initiates proceedings on behalf of Noteholders. The Trustee shall not be obliged to take any such steps and/or actions and/or to initiate any such proceedings if not indemnified and/or secured and/or prefunded to its satisfaction. Negotiating and agreeing to an indemnity and/or security and/or prefunding can be a lengthy process and may impact on when such steps and/or actions can be taken and/or such proceedings can be initiated. The Trustee may not be able to take steps and/or actions and/or to initiate proceedings, notwithstanding the provision of an indemnity or security or prefunding to it, in breach of the terms of the Trust Deed and/or the Terms and Conditions of the Notes and in such circumstances, or where there is uncertainty or dispute as to the applicable laws or regulations, to the extent permitted by the agreements and the applicable law, it will be for the Noteholders to take such steps and/or actions and/or to initiate such proceedings directly.

Risks Relating to the Structure of a Particular Issue of Notes

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of certain such features:

The regulation and reform of “benchmark” rates of interest and indices may adversely affect the value of Notes linked to or referencing such “benchmarks”.

Interest rates and indices which are deemed to be or used as “benchmarks”, are the subject of recent international regulatory guidance and proposals for reform. Some of these reforms are already effective whilst others are still to be implemented. These reforms may cause such benchmarks to perform differently than in the past or to disappear entirely, or have other consequences which cannot be predicted. The discontinuation of a benchmark or changes to its administration could require changes to the way in which the Rate of Interest is calculated in respect of any Notes referencing or linked to such benchmark. The development of alternatives to a benchmark may result in Notes linked to or referencing such benchmark performing differently than would otherwise have been the case if the alternatives to such benchmark had not developed. Any such consequence could have a material adverse effect on the value of and return on any Note linked to or referencing such a benchmark.

More broadly, any of the international reforms or the general increased regulatory scrutiny of benchmarks, could increase the costs and risks of administering or otherwise participating in the setting of a benchmark and complying with any such regulations or requirements. For example, the sustainability

of the London interbank offered rate (“**LIBOR**”) has been questioned as a result of the absence of relevant active underlying markets and possible disincentives (including as a result of regulatory reforms) for market participants to continue contributing to such benchmarks. On 27 July 2017, the United Kingdom Financial Conduct Authority announced that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmark after 2021 (the “**FCA Announcement**”). The FCA Announcement indicated that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. The potential elimination of the LIBOR benchmark or any other benchmark, or changes in the manner of administration of any benchmark, could require an adjustment to the Terms and Conditions of the Notes, or result in other consequences, in respect of any Notes linked to such benchmark. Such factors may have the following effects on certain benchmarks: (i) discourage market participants from continuing to administer or contribute to the benchmark; (ii) trigger changes in the rules or methodologies used in the benchmark or (iii) lead to the disappearance of the “benchmark”. Any of the above changes or any other consequential changes as a result of international reforms or other initiatives or investigations, could have a material adverse effect on the value of and return on any Notes linked to or referencing a benchmark.

Investors should consult their own independent advisers and make their own assessment about the potential risks imposed by any international reforms in making any investment decision with respect to any Notes linked to or referencing a benchmark.

The value of, and return on, Floating Rate Notes linked to or referencing IBOR may be adversely affected in the event of a permanent discontinuation of IBOR.

Whilst alternatives to certain IBORs for use in the bond market are being developed, outstanding Notes linked to or referencing an IBOR may transition away from such IBOR in accordance with the particular fallback arrangements set out in their terms and conditions. The operation of these fallback arrangements could result in a different return for Noteholders, Receiptholders and Couponholders (which may include payment of a lower Rate of Interest) than they might receive under other similar securities which contain different or no fallback arrangements (including which they may otherwise receive in the event that legislative measures or other initiatives (if any) are introduced to transition from any given IBOR to an alternative rate).

Where Screen Rate Determination is specified as the manner in which the Rate of Interest in respect of Floating Rate Notes is to be determined, the Conditions provide that the Rate of Interest shall be determined by reference to the Relevant Screen Page (or its successor or replacement). In circumstances where such Original Reference Rate is discontinued, neither the Relevant Screen Page, nor any successor or replacement may be available.

Where the Relevant Screen Page is not available, and no successor or replacement for the Relevant Screen Page is available, the Conditions provide for the Rate of Interest to be determined by the Calculation Agent by reference to quotations from banks communicated to the Calculation Agent. Where such quotations are not available (as may be the case if the relevant banks are not submitting rates for the determination of such Original Reference Rate), the Rate of Interest may ultimately revert to the Rate of Interest applicable as at the last preceding Interest Determination Date before the Original Reference Rate was discontinued. Uncertainty as to the continuation of the Original Reference Rate, the availability of quotes from reference banks, and the rate that would be applicable if the Original Reference Rate is discontinued may adversely affect the value of, and return on, the Floating Rate Notes.

Benchmark Events include (amongst other events) permanent discontinuation of an Original Reference Rate (for example, the LIBOR). If a Benchmark Event occurs, the Issuer shall, as soon as reasonably practicable, use its reasonable endeavours to appoint (at the expense of the Issuer, failing whom the Guarantor) an Independent Adviser to determine a Successor Rate, failing which an Alternative Rate to be used in place of the Original Reference Rate. The use of any such Successor Rate or Alternative Rate (as the case may be) to determine the Rate of Interest is likely to result in Notes initially linked to or referencing the Original Reference Rate performing differently (which may include payment of a lower Rate of Interest) than they would do if the Original Reference Rate were to continue to apply in its current form.

Furthermore, if a Successor Rate or Alternative Rate (as the case may be) for the Original Reference Rate is determined by the Independent Adviser, the Conditions provide that the Issuer may vary the Conditions and/or the Trust Deed, as necessary to ensure the proper operation of such Successor Rate or Alternative Rate (as the case may be), without any requirement for consent or approval of the Noteholders.

If a Successor Rate or Alternative Rate (as the case may be) is determined by the Independent Adviser, the Conditions also provide that an Adjustment Spread will be determined by the Independent Adviser and applied to such Successor Rate or Alternative Rate (as the case may be).

The Adjustment Spread is (i) the spread, formula or methodology which is formally recommended in relation to the replacement of the Original Reference Rate with the Successor Rate by any Relevant Nominating Body (which may include a relevant central bank, supervisory authority or group of central banks/supervisory authorities), (ii) if no such recommendation has been made, or in the case of an Alternative Rate, the spread, formula or methodology which the Independent Adviser determines is customarily applied to the relevant Successor Rate or the Alternative Rate (as the case may be) in international debt capital markets transactions to produce an industry-accepted replacement rate for the Original Reference Rate, or (iii) if the Independent Adviser determines that no such spread is customarily applied, the spread, formula or methodology which the Independent Adviser determines and which is recognised or acknowledged as being the industry standard for over-the-counter derivative transactions which reference the Original Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Rate (as the case may be).

Accordingly, the application of an Adjustment Spread may result in the Notes performing differently (which may include payment of a lower Rate of Interest) than they would do if the Original Reference Rate were to continue to apply in its current form.

The Issuer may be unable to appoint an Independent Adviser or the Independent Adviser may not be able to determine a Successor Rate or Alternative Rate in accordance with the Conditions.

Where the Issuer is unable to appoint an Independent Adviser or the Independent Adviser is unable to determine a Successor Rate, failing which, an Alternative Rate prior to the relevant Interest Determination Date, the Rate of Interest applicable to the next succeeding Interest Accrual Period will be equal to the Rate of Interest last determined in relation to the Notes in respect of the immediately preceding Interest Accrual Period. If there has not been a first Interest Payment Date, the Rate of Interest shall be the initial Rate of Interest.

Where the Issuer has been unable to appoint an Independent Adviser or, the Independent Adviser has failed, to determine a Successor Rate or Alternative Rate in respect of any given Interest Accrual Period, it will continue to attempt to appoint an Independent Adviser as soon as reasonably practicable before the next succeeding Interest Determination Date and/or to determine a Successor Rate or Alternative Rate to apply the next succeeding and any subsequent Interest Accrual Periods, as necessary.

Applying the initial Rate of Interest, or the Rate of Interest applicable as at the last preceding Interest Determination Date before the occurrence of the Benchmark Event is likely to result in Notes linked to or referencing the relevant benchmark performing differently (which may include payment of a lower Rate of Interest) than they would do if the relevant benchmark were to continue to apply, or if a Successor Rate or Alternative Rate could be determined.

If the Issuer is unable to appoint an Independent Adviser or, the Independent Adviser fails to determine a Successor Rate or Alternative Rate for the life of the relevant Notes, the initial Rate of Interest, or the Rate of Interest applicable as at the last preceding Interest Determination Date before the occurrence of the Benchmark Event, will continue to apply to maturity. This will result in the Floating Rate Notes, in effect, becoming fixed rate Notes.

Where ISDA Determination is specified as the manner in which the Rate of Interest in respect of Floating Rate Notes is to be determined, the Conditions provide that the Rate of Interest in respect of the Notes shall be determined by reference to the relevant Floating Rate Option in the 2006 ISDA Definitions. Where the Floating Rate Option specified is an "IBOR" Floating Rate Option, the Rate of Interest may be

determined by reference to the relevant screen rate or the rate determined on the basis of quotations from certain banks. If the relevant IBOR is permanently discontinued and the relevant screen rate or, failing that, quotations from banks (as applicable) are not available, the operation of these provisions may lead to uncertainty as to the Rate of Interest that would be applicable, and may, adversely affect the value of, and return on, the Floating Rate Notes.

Notes subject to optional redemption by the Issuer may have a lower market value than Notes that cannot be redeemed.

Unless in the case of any particular Tranche of Notes the relevant Pricing Supplement specifies otherwise, in the event that the Issuer or the Guarantor would be obliged to increase the amounts payable in respect of any Notes due to any withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the PRC or any political subdivision therein or thereof or Hong Kong or, in each case, any authority therein or thereof having power to tax, the Issuer may redeem all outstanding Notes in accordance with the Conditions.

An optional redemption feature is likely to limit the market value of the relevant Tranche of Notes. During any period when the Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Dual Currency Notes have features which are different from single currency issues.

The Issuer may issue Notes with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

- (i) the market price of such Notes may be volatile;
- (ii) they may receive no interest;
- (iii) payment of principal or interest may occur at a different time or in a different currency than expected; and
- (iv) the amount of principal payable at redemption may be less than the principal amount of such Notes or even zero.

Failure by an investor to pay a subsequent instalment of partly paid Notes may result in an investor losing all of its investment.

The Issuer may issue Notes where the issue price is payable in more than one instalment. Failure to pay any subsequent instalments could result in an investor losing all of its investment.

The market price of variable rate Notes with a multiplier or other leverage factor may be volatile.

Notes with variable interest rates can be volatile securities. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include such features. Such volatility may affect the market value of the Notes.

Inverse Floating Rate Notes are generally more volatile than conventional floating rate debt securities.

Inverse Floating Rate Notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as the London Interbank Offered Rate. The market values of such Notes typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). This is because an increase in the reference rate not only decreases the interest rate of the Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes.

Notes carrying an interest rate which may be converted from fixed to floating interest rates and vice versa, may have lower market values than other Notes.

Fixed/Floating Rate Notes may bear interest at a rate that the Issuer may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. The Issuer's ability to convert the interest rate will affect the secondary market and the market value of such Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate, the fixed rate may be lower than then prevailing rates on its Notes.

The market prices of Notes issued at a substantial discount or premium tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest bearing securities.

The market values of Notes issued at a substantial discount or premium to their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest bearing securities. Generally, the longer the remaining term of the Notes, the greater the price volatility as compared to conventional interest bearing securities with comparable maturities.

Investors may lose part or all of their investment in any Index Linked Notes issued.

If, in the case of a particular Tranche of Notes, the relevant Pricing Supplement specifies that the Notes are Index Linked Notes or variable redemption amount Notes, there is a risk that an investor may lose the value of its entire investment or part of it.

Risks Relating to the Market Generally

Set out below is a brief description of certain market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

Notes issued under the Programme have no current active trading market and may trade at a discount to their initial offering price and/or with limited liquidity.

Notes issued under the Programme will be new securities which may not be widely distributed and for which there is currently no active trading market (unless in the case of any particular Tranche, such Tranche is to be consolidated with and form a single series with a Tranche of Notes which is already issued). If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the Group's financial condition. If the Notes are trading at a discount, investors may not be able to receive a favourable price for their Notes, and in some circumstances investors may not be able to sell their Notes at all or at their fair market value. Although applications may be made to the Hong Kong Stock Exchange or on any other stock exchange for the Notes issued under the Programme

to be admitted to listing on the Hong Kong Stock Exchange or on any other stock exchange, there is no assurance that such application will be accepted, that any particular Tranche of Notes will be so admitted or that an active trading market will develop. In addition, the market for securities has been subject to disruptions that have caused volatility in prices of securities similar to the Notes issued under the Programme. Accordingly, there is no assurance that a liquid trading market will develop, or that disruptions will not occur, for any particular Tranche of Notes.

Exchange rate risks and exchange controls may result in investors receiving less interest or principal than expected.

The Issuer will pay principal and interest on the Notes in the currency specified in the relevant Pricing Supplement (the “**Specified Currency**”). This presents certain risks relating to currency conversions if an investor’s financial activities are denominated principally in a currency or currency unit (the “**Investor’s Currency**”) other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor’s Currency) and the risk that authorities with jurisdiction over the Investor’s Currency may impose or modify exchange controls. An appreciation in the value of the Investor’s Currency relative to the Specified Currency would decrease: (i) the Investor’s Currency equivalent yield on the Notes; (ii) the Investor’s Currency equivalent value of the principal payable on the Notes; and (iii) the Investor’s Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Changes in market interest rates may adversely affect the value of Fixed Rate Notes.

Investment in Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of Fixed Rate Notes.

The credit ratings assigned to the Notes may not reflect all risks.

One or more independent credit rating agencies may assign credit ratings to an issue of Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

Risks Relating to Renminbi Denominated Notes

Notes denominated in Renminbi (the “**Renminbi Notes**”) may be issued under the Programme. Renminbi Notes contain particular risks for potential investors.

Renminbi is not freely convertible; there are significant restrictions on remittance of Renminbi into and outside the PRC.

Renminbi is not freely convertible at present. The PRC government continues to regulate conversion between Renminbi and foreign currencies, including the Hong Kong dollar. There has been significant reduction in control by the PRC government in recent years, particularly over trade transactions involving import and export of goods and services as well as other frequent routine foreign exchange transactions. These transactions are known as current account items. On the other hand, remittance of Renminbi into and out of the PRC for the settlement of capital account items, such as capital contributions, debt financing and securities investment, is generally only permitted upon obtaining specific approvals from, or

completing specific registrations or filings with, the relevant authorities on a case-by-case basis and is subject to a strict monitoring system. Regulations in the PRC on the remittance of Renminbi into and out of the PRC for settlement of capital account items are being developed.

Participating banks in Hong Kong have been permitted to engage in the settlement of Renminbi trade transactions under a pilot scheme introduced in July 2009. This represents a current account activity. The pilot scheme was extended in June 2010 to cover 20 provinces and cities in Mainland China and to make Renminbi trade and other current account item settlement available in all countries worldwide, and since 12 June 2012, coverage has been expanded nationwide in the PRC. All PRC companies with foreign trade qualifications are eligible to conduct cross-border trade settlement in Renminbi. China has issued a list of enterprises that will be put under strict supervision in respect of their cross-border trade Renminbi settlements. Those enterprises on this list may not deposit abroad Renminbi funds earned from cross-border trade settlement.

Foreign investors may remit offshore Renminbi into China for shareholders' loan or capital contribution upon obtaining specific approvals from the relevant authorities on a case-by-case basis, pursuant to the Measures on Administration of Renminbi Settlement in relation to Foreign Direct Investment (外商直接投資人民幣結算業務管理辦法) issued by the PBOC on 13 October 2011 and was amended on 5 June 2015 and the relevant circulars issued by the MOFCOM. Along with the promulgation of the Administrative Measures for Trial Program of RMB Settlement of Overseas Direct Investment (境外直接投資人民幣結算試點管理辦法) by the PBOC in 2011, the approval process in the use of Renminbi for outbound investment by PRC companies has been streamlined. On 5 July 2013, the PBOC issued the Circular on Simplifying the Cross-Border RMB Business Procedures and Improving Relevant Policies (關於簡化跨境人民幣業務流程和完善有關政策的通知), pursuant to which the regulatory procedures have been simplified and greater flexibility for almost all types of cross-border RMB business have been provided, including current account cross-border RMB settlement, cross-border RMB loans and the issuance of offshore RMB bonds by domestic non financial institutions. The new circular aims to improve the efficiency of RMB business and accelerate the internationalization of RMB. On 1 January 2014, the MOFCOM Circular concerning Relevant Issues with regard to Cross-border RMB Direct Investment (關於跨境人民幣直接投資有關問題的公告) became effective, which replaced the Circular of the Ministry of Commerce on Issues in relation to Cross-border RMB Foreign Direct Investment (商務部關於跨境人民幣直接投資有關問題的通知) issued by MOFCOM on 12 October 2011. Pursuant to the new MOFCOM circular, the appropriate office of MOFCOM and/or its local counterparts will grant written approval for each foreign direct investment ("FDI") project and specify "Renminbi Foreign Direct Investment" and the amount of capital contribution in the approval. Unlike previous MOFCOM regulations on FDI, the said new circular removes the approval requirement for foreign investors who intend to change the currency of its existing capital contribution from a foreign currency to Renminbi. In addition, it also clearly prohibits Renminbi FDI funds from being used for any investment in securities and financial derivatives (except for investment in the PRC listed companies as strategic investors) or for entrustment loans in the PRC. On 5 January 2018, the PBOC issued the Circular about Further Improving Cross-border RMB Business to Facilitate Trade and Investment (中國人民銀行關於進一步完善人民幣跨境業務政策促進貿易投資便利化的通知), in a move to promote enterprises to use RMB for cross-border settlement and support banks to handle other cross-border RMB settlement businesses under the current account for individuals. Relevant rules of the new circular facilitate overseas investors to carry out direct investment in RMB and ensure that profits obtained by overseas investors in China can be remitted freely in accordance with the law. Meanwhile, the new circular also specifies that enterprises may remit RMB funds raised overseas to China for their use as actually needed. As the above measures and circulars are relatively new, how will they be applied in practice is subject to interpretation by the relevant PRC authorities.

In addition, the PRC has concluded a series of bilateral Renminbi-denominated currency swap arrangements with certain countries as well as the European Union. The Renminbi Qualified Foreign Institutional Investor (RQFII) scheme have been in place allowing pre-qualified offshore institutions (including foreign central banks) to invest, subject to quota, in onshore interbank bond market and equity market of China. Also, from 1 October 2016, Renminbi has been added to the Special Drawing Rights basket created by the International Monetary Fund.

Despite the Renminbi internationalisation pilot programme and efforts in recent years to internationalise the currency, we cannot assure you that the PRC government will continue to gradually liberalise the control over cross-border Renminbi remittances in the future or that new PRC regulations will not be promulgated in the future which have the effect of restricting or eliminating the remittance of Renminbi into or outside Mainland China.

Holders of beneficial interests in the Notes denominated in Renminbi may be required to provide certifications and other information (including Renminbi account information) in order to allow such holder to receive payments in Renminbi in accordance with the Renminbi clearing and settlement system for participating banks in Hong Kong.

There is only limited availability of Renminbi outside Mainland China, which may affect the liquidity of Renminbi Notes and our ability to source Renminbi outside Mainland China to service such Renminbi Notes.

As a result of the restrictions by the PRC Government on cross border Renminbi fund flows, the availability of Renminbi outside of Mainland China is limited. Since February 2004, in accordance with arrangements between the PRC Central Government and the Hong Kong government, licensed banks in Hong Kong may offer limited Renminbi denominated banking services to Hong Kong residents and specified business customers. The PBOC, the central bank of China, has also established a Renminbi clearing and settlement system for participating banks in Hong Kong. On 19 July 2010, further amendments were made to the Settlement Agreement on the Clearing of Renminbi Business (the “**Settlement Agreement**”), between the PBOC and Bank of China (Hong Kong) Limited (the “**Renminbi Clearing Bank**”), to further expand the scope of Renminbi business for participating banks in Hong Kong. Pursuant to the revised arrangements, all corporations are allowed to open Renminbi accounts in Hong Kong. There is no longer any limit on the ability of corporations to convert Renminbi. In 2015, the PBOC has established the Cross-Border Inter-Bank Payment System (the “**CIPS**”) to facilitate cross-border Renminbi settlement and is further in the process of establishing Renminbi clearing and settlement mechanisms in several other jurisdictions. However, the conversion and transfer of Renminbi are still subject to certain restrictions.

The current size of Renminbi-denominated financial assets outside Mainland China is limited. Renminbi business participating banks do not have direct Renminbi liquidity support from the PBOC, although the PBOC has gradually allowed participating banks to access the PRC’s onshore inter-bank market for the purchase and sale of Renminbi. The Renminbi Clearing Bank only has access to onshore liquidity support from PBOC to square open positions of participating banks for limited types of transactions, including open positions resulting from conversion services for corporations relating to cross-border trade settlement, personal customers and for Hong Kong residents of up to RMB20,000 per person per day. The Renminbi Clearing Bank is not obliged to square for participating banks any open positions resulting from other foreign exchange transactions or conversion services and the participating banks will need to source Renminbi from the offshore market to square such open positions in cases where they cannot source sufficient Renminbi through the above channels.

Although it is expected that the offshore Renminbi market will continue to grow in depth and size, its growth is subject to many constraints as a result of PRC laws and regulations on foreign exchange. We cannot assure you that new PRC regulations will not be promulgated or the Settlement Agreement will not be terminated or amended in the future which will have the effect of restricting the availability of Renminbi offshore. The limited availability of Renminbi outside the PRC may affect the liquidity of its Renminbi Notes. To the extent we are required to source Renminbi in the offshore market to service its Renminbi Notes, we cannot assure you that we will be able to source such Renminbi on satisfactory terms, if at all.

Investment in Renminbi Notes is subject to exchange rate risks.

The value of Renminbi against the U.S. dollar and other foreign currencies fluctuates and is affected by changes in Mainland China and international political and economic conditions as well as many other factors. Recently, the PBOC has implemented changes to the way it calculates the Renminbi's daily mid-point against the U.S. dollar to take into account market-maker quotes before announcing such daily mid-point. The changes may increase the volatility in the value of the Renminbi against foreign currencies. All payments of interest and principal will be made with respect to Renminbi Notes in Renminbi. As a result, the value of these Renminbi payments in U.S. dollar terms may vary with the prevailing exchange rates in the marketplace. If the value of Renminbi depreciates against U.S. dollar or other foreign currencies, the value of investment in U.S. dollars or other applicable foreign currency terms will decline.

Investment in the Renminbi Notes is subject to interest rate risks.

The PRC government has gradually liberalised its regulation of interest rates in recent years. Further liberalisation may increase interest rate volatility. In addition, the interest rate for Renminbi in markets outside the PRC may significantly deviate from the interest rate for Renminbi in the PRC as a result of foreign exchange controls imposed by PRC law and regulations and prevailing market conditions.

As Renminbi Notes may carry a fixed interest rate, the trading price of the Renminbi Notes will consequently vary with the fluctuations in the Renminbi interest rates. If holders of the Renminbi Notes propose to sell their Renminbi Notes before their maturity, they may receive an offer lower than the amount they have invested.

Payments in respect of Renminbi Notes will only be made to investors in the manner specified in such Renminbi Notes.

All payments to investors in respect of Renminbi Notes cleared through the CMU Service will be made solely by: (i) transfer to a Renminbi bank account maintained in Hong Kong in accordance with the prevailing rules and procedures of the CMU Service, when Renminbi Notes are represented by Global Notes or Global Certificates cleared through the CMU Service; (ii) transfer to a Renminbi bank account maintained in Hong Kong or, if so specified in the Pricing Supplement, a financial centre in which a Renminbi clearing bank operates, when the Renminbi Notes are represented by a global certificate held with the common depositary for Clearstream and Euroclear or any alternative clearing system, or (iii) transfer to a Renminbi bank account maintained in Hong Kong in accordance with prevailing rules and regulations, when Renminbi Notes are in definitive form. Neither the Issuer nor the Guarantor can be required to make payment by any other means (including in any other currency or in bank notes, by cheque or draft or by transfer to a bank account in the PRC).

USE OF PROCEEDS

The net proceeds from each issue of Notes will be used for repaying the existing medium to long-term offshore indebtedness of the Group which will become due within one year. If, in respect of any particular issue, there is a particular identified use of proceeds, this will be stated in the applicable Pricing Supplement.

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

Initial Issue of Notes

Global Notes and Global Certificates may be delivered on or prior to the original issue date of the Tranche to a Common Depository for Euroclear and Clearstream or a sub-custodian for the CMU.

Upon the initial deposit of a Global Note with, or with a nominee of, a common depository for Euroclear and Clearstream (the “**Common Depository**”) or with a sub-custodian for the CMU or registration of Registered Notes in the name of (i) any nominee for, or any nominee for the Common Depository for, Euroclear and Clearstream or (ii) the Hong Kong Monetary Authority as operator of the CMU and delivery of the relative Global Certificate to the Common Depository or the sub-custodian for the CMU (as the case may be), Euroclear or Clearstream or the CMU (as the case may be) will credit each subscriber with a principal amount of Notes equal to the principal amount thereof for which it has subscribed and paid.

Notes that are initially deposited with the Common Depository may also be credited to the accounts of subscribers with (if indicated in the relevant Pricing Supplement) other clearing systems through direct or indirect accounts with Euroclear and Clearstream held by such other clearing systems. Conversely, Notes that are initially deposited with any other clearing system may similarly be credited to the accounts of subscribers with Euroclear, Clearstream or other clearing systems.

Relationship of Accountholders with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream or any other clearing system (an “**Alternative Clearing System**”) as the holder of a Note represented by a Global Note or a Global Certificate must look solely to Euroclear, Clearstream or any such Alternative Clearing System (as the case may be) for his share of each payment made by the Issuer or the Guarantor to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, and in relation to all other rights arising under the Global Notes or Global Certificates, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream or such Alternative Clearing System (as the case may be). Such persons shall have no claim directly against the Issuer or the Guarantor in respect of payments due on the Notes for so long as the Notes are represented by such Global Note or Global Certificate and such obligations of the Issuer or the Guarantor will be discharged by payment to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, in respect of each amount so paid.

If a Global Note or a Global Certificate is lodged with a sub-custodian for or registered with the CMU, the person(s) for whose account(s) interests in such Global Note or Global Certificate are credited as being held in the CMU in accordance with the relevant rules of CMU as notified by the CMU to the CMU Lodging and Paying Agent in a relevant CMU Instrument Position Report (as defined in the relevant rules of CMU) or any other relevant notification by the CMU (which notification, in either case, shall be conclusive evidence of the records of the CMU save in the case of manifest error) shall be the only person(s) entitled or in the case of Registered Notes, directed or deemed by the CMU as entitled to receive payments in respect of Notes represented by such Global Note or Global Certificate and the Issuer or the Guarantor will be discharged by payment to, or to the order of, such person(s) for whose account(s) interests in such Global Note or Global Certificate are credited as being held in the CMU in respect of each amount so paid. Each of the persons shown in the records of the CMU as the beneficial holder of a particular principal amount of Notes represented by such Global Note or Global Certificate must look solely to the CMU Lodging and Paying Agent for his share of each payment so made by the Issuer or the Guarantor in respect of such Global Note or Global Certificate.

Exchange

Temporary Global Notes

Each temporary Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date:

- (i) if the relevant Pricing Supplement indicates that such Global Note is issued in compliance with the C Rules or in a transaction to which TEFRA is not applicable (as to which, see “**Summary of the Programme — Selling Restrictions**”), in whole, but not in part, for the Definitive Notes defined and described below; and
- (ii) otherwise, in whole or in part upon certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement for interests in a permanent Global Note or, if so provided in the relevant Pricing Supplement, for Definitive Notes.

The CMU may require that any such exchange for a permanent Global Note is made in whole and not in part and in such event, no such exchange will be effected until all relevant account holders (as set out in a CMU Instrument Position Report (as defined in the rules of the CMU) or any other relevant notification supplied to the CMU Lodging and Paying Agent by the CMU) have so certified.

The holder of a temporary Global Note will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the temporary Global Note for an interest in a permanent Global Note or for Definitive Notes is improperly withheld or refused.

Permanent Global Notes

Each permanent Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date in whole but not, except as provided under “**Partial Exchange of Permanent Global Notes**” below, in part for Definitive Notes if the permanent Global Note is held on behalf of Euroclear, Clearstream, the CMU or an Alternative Clearing System and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or in fact does so.

In the event that a Global Note is exchanged for Definitive Notes, such Definitive Notes shall be issued in Specified Denomination(s) only. A Noteholder who holds a principal amount of less than the minimum Specified Denomination will not receive a definitive Note in respect of such holding and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more Specified Denominations.

Global Certificates

The following will apply in respect of transfers of Notes held in Euroclear, Clearstream, the CMU or an Alternative Clearing System. These provisions will not prevent the trading of interests in the Notes within a clearing system whilst they are held on behalf of such clearing system, but will limit the circumstances in which the Notes may be withdrawn from the relevant clearing system. Transfers of the holding of Notes represented by any Global Certificate pursuant to Condition 2(b) may only be made in part if the relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, provided that, in the case of the first transfer of part of a holding pursuant to the above, the Registered Holder has given the Registrar not less than 30 days’ notice at its specified office of the Registered Holder’s intention to effect such transfer.

Partial Exchange of Permanent Global Notes

For so long as a permanent Global Note is held on behalf of a clearing system and the rules of that clearing system permit, such permanent Global Note will be exchangeable in part on one or more occasions for Definitive Notes if so provided in, and in accordance with, the Conditions (which will be set out in the relevant Pricing Supplement) relating to Partly Paid Notes.

Delivery of Notes

On or after any due date for exchange, the holder of a Global Note may surrender such Global Note or, in the case of a partial exchange, present it for endorsement to or to the order of the Issuing and Paying Agent (or, in the case of Notes lodged with the CMU, the CMU Lodging and Paying Agent). In exchange for any Global Note, or the part thereof to be exchanged, the Issuer will (i) in the case of a temporary Global Note exchangeable for a permanent Global Note, deliver, or procure the delivery of, a permanent Global Note in an aggregate principal amount equal to that of the whole or that part of a temporary Global Note that is being exchanged or, in the case of a subsequent exchange, endorse, or procure the endorsement of, a permanent Global Note to reflect such exchange or (ii) in the case of a Global Note exchangeable for Definitive Notes, deliver, or procure the delivery of, an equal aggregate principal amount of duly executed and authenticated Definitive Notes. Global Notes, Global Certificates and Definitive Notes will be delivered outside the United States and its possessions. In this Offering Circular, “**Definitive Notes**” means, in relation to any Global Note, the definitive Bearer Notes for which such Global Note may be exchanged (if appropriate, having attached to them all Coupons and Receipts in respect of interest or Instalment Amounts that have not already been paid on the Global Note and a Talon). Definitive Notes will be security printed in accordance with any applicable legal and stock exchange requirements in or substantially in the form set out in the Schedules to the Trust Deed. On exchange in full of each permanent Global Note, the Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with the relevant Definitive Notes.

Exchange Date

“**Exchange Date**” means, in relation to a temporary Global Note, the day falling after the expiry of 40 days after its issue date and, in relation to a permanent Global Note, a day falling not less than 60 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Issuing and Paying Agent or the CMU Lodging and Paying Agent is located and in the city in which the relevant clearing system is located.

Amendment to Conditions

The temporary Global Notes, permanent Global Notes and Global Certificates contain provisions that apply to the Notes that they represent, some of which modify the effect of the terms and conditions of the Notes set out in this Offering Circular. The following is a summary of certain of those provisions:

Payments

No payment falling due after the Exchange Date will be made on any Global Note unless upon due presentation of the Global Note, exchange for an interest in a permanent Global Note or for Definitive Notes is improperly withheld or refused. Payments on any temporary Global Note issued in compliance with the D Rules before the Exchange Date will only be made against presentation of certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement. All payments in respect of Notes represented by a Global Note (except with respect to a Global Note held through the CMU) will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of that Global Note to or to the order of the Issuing and Paying Agent as shall have been notified to the Noteholders for such purpose. A record of each payment so made will be enfaced on each

Global Note, which endorsement will be *prima facie* evidence that such payment has been made in respect of the Notes. For the purpose of any payments made in respect of a Global Note, the words “in the relevant place of presentation” (if applicable) shall be disregarded in the definition of “business day” set out in Condition 7(h).

All payments in respect of Notes represented by a Global Certificate (other than a Global Certificate held through the CMU) will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the record date which shall be the Clearing System Business Day immediately prior to the date for payment, where “**Clearing System Business Day**” means Monday to Friday inclusive except 25 December and 1 January.

In respect of a Global Note or Global Certificate held through the CMU, any payments of principal, interest (if any) or any other amounts shall be made to the person(s) for whose account(s) interests in the relevant Global Note or Global Certificate are credited as being held by the CMU of the relevant time (as set out in a CMU Instrument Position Report or any other relevant notification supplied to the CMU Lodging and Paying Agent by the CMU) and, save in the case of final payment, no presentation of the relevant Global Note or Global Certificate shall be required for such purpose.

So long as the Notes are represented by a Global Note or Global Certificate and the Global Note or Global Certificate is held on behalf of a clearing system, the Issuer has undertaken, *inter alia*, to pay interest in respect of such Notes from the Interest Commencement Date in arrear at the rates, on the dates for payment, and in accordance with the method of calculation provided for in the Conditions, save that the calculation is made in respect of the total aggregate amount of the Notes represented by the Global Note or Global Certificate.

Prescription

Claims against the Issuer in respect of Notes that are represented by a permanent Global Note will become void unless it is presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 8).

Meetings

The holder of a permanent Global Note or of the Notes represented by a Global Certificate shall (unless such permanent Global Note or Global Certificate represents only one Note) be treated as being two persons for the purposes of any quorum requirements of a meeting of Noteholders and, at any such meeting, the holder of a permanent Global Note or of the Notes represented by a Global Certificate shall be treated as having one vote in respect of each integral currency unit of the Specified Currency of the Notes. All holders of Registered Notes are entitled to one vote in respect of each integral currency unit of the Specified Currency of the Notes comprising such Noteholder’s holding, whether or not represented by a Global Certificate.

Cancellation

Cancellation of any Note represented by a permanent Global Note that is required by the Conditions to be cancelled (other than upon its redemption) will be effected by reduction in the principal amount of the relevant permanent Global Note upon its presentation to or to the order of the Issuing and Paying Agent (or, in the case of Notes lodged with the CMU, the CMU Lodging and Paying Agent) for endorsement in the relevant schedule of such permanent Global Note or in the case of a Global Certificate, by reduction in the aggregate principal amount of the Certificates in the Register, whereupon the principal amount thereof shall be reduced for all purposes by the amount so cancelled and endorsed.

Purchase

Notes represented by a permanent Global Note may only be purchased by the Issuer, the Guarantor or any of their respective subsidiaries if they are purchased together with the rights to receive all future payments of interest and Instalment Amounts (if any) thereon.

Issuer's Option

Any option of early redemption of the Issuer provided for in the Conditions of any Notes while such Notes are represented by a permanent Global Note shall be exercised by the Issuer giving notice to the Noteholders within the time limits set out in and containing the information required by the Conditions, except that the notice shall not be required to contain the serial numbers of Notes drawn in the case of a partial exercise of an option and accordingly no drawing of Notes shall be required.

In the event that any option of the Issuer is exercised in respect of some but not all of the Notes of any Series, the rights of accountholders with a clearing system in respect of the Notes will be governed by the standard procedures of Euroclear, Clearstream, the CMU or any other clearing system (as the case may be).

Noteholders' Options

Any option of the Noteholders provided for in the Conditions of any Notes while such Notes are represented by a permanent Global Note may be exercised by the holder of the permanent Global Note giving notice to the Issuing and Paying Agent (or, in the case of Notes lodged with the CMU, the CMU Lodging and Paying Agent) within the time limits relating to the deposit of Notes with a Paying Agent set out in the Conditions in accordance with the rules and procedures of Euroclear and Clearstream, CMU or any other relevant clearing system, failing which, in the form of the notice available from any Paying Agent, except that the notice shall not be required to contain the serial numbers of the Notes in respect of which the option has been exercised, and stating the principal amount of Notes in respect of which the option is exercised and at the same time presenting the permanent Global Note to the Issuing and Paying Agent (or, in the case of Notes lodged with the CMU, the CMU Lodging and Paying Agent), or to a Paying Agent acting on behalf of the Issuing and Paying Agent (or, in the case of Notes lodged with the CMU, the CMU Lodging and Paying Agent) for notation.

Any option of the Noteholders provided for in the Conditions of any Notes while such Notes are represented by a Global Certificate may be exercised in respect of the whole or any part of the holding of Notes represented by the Global Certificate.

Trustee's Powers

In considering the interests of Noteholders while any Global Note is held on behalf of, or Registered Notes are registered in the name of, or in the name of any nominee for, a clearing system or a common depository for a clearing system, the Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to such Global Note or Registered Notes and may consider such interest as if such accountholders were the holders of the Notes represented by such Global Note or Global Certificate.

Notices

So long as any Notes are represented by a Global Note or a Global Certificate and such Global Note or Global Certificate is held on behalf of (i) Euroclear and/or Clearstream or any other clearing system (except as provided in (ii) below), notices to the holders of Notes of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions or by delivery of the relevant notice to the holder of the Global Note or (ii) the CMU, notices to the holders of Notes of that Series may be given (x) via the CMU Corporate Action Platform to the CMU Members shown in the records of the CMU as holding interests in the relevant Global Note or Global Certificate or (y) by delivery to the persons shown in a CMU Instrument Position Report (as defined in the Trust Deed) issued by the Hong Kong Monetary Authority on the business day preceding the date of despatch of such notice as holding interests in the relevant Global Note or Global Certificate.

Partly Paid Notes

The provisions relating to Partly Paid Notes are not set out in this Offering Circular, but will be contained in the relevant Pricing Supplement and thereby in the Global Notes. While any instalments of the subscription moneys due from the holder of Partly Paid Notes are overdue, no interest in a Global Note representing such Notes may be exchanged for an interest in a permanent Global Note or for Definitive Notes (as the case may be). If any Noteholder fails to pay any instalment due on any Partly Paid Notes within the time specified, the Issuer may forfeit such Notes and shall have no further obligation to their holders in respect of them.

TERMS AND CONDITIONS OF THE NOTES

The following, other than the words in italics, is the text of the terms and conditions that, subject to completion and amendment and as supplemented or varied in accordance with the provisions of the relevant Pricing Supplement, shall be applicable to the Notes in definitive form (if any) issued in exchange for the Global Note(s) or the Global Certificate representing each Series. Either (i) the full text of the terms and conditions together with the relevant provisions of the Pricing Supplement or (ii) the terms and conditions as so completed, amended, supplemented or varied (and subject to simplification by the deletion of non-applicable provisions), shall be endorsed on such Bearer Notes or on the Certificates relating to such Registered Notes. All capitalised terms that are not defined in the Conditions will have the meanings given to them in the relevant Pricing Supplement. Those definitions will be endorsed on the definitive Notes or Certificates, as the case may be. References in the Conditions to “Notes” are to the Notes of one Series only, not to all Notes that may be issued under the Programme.

This Note is one of a series (“**Series**”) of Notes issued by Westwood Group Holdings Limited 卓裕控股有限公司 (the “**Issuer**”) and unconditionally and irrevocably guaranteed by Yuexiu Property Company Limited 越秀地產股份有限公司 (the “**Guarantor**”).

The Notes are constituted by an amended and restated trust deed dated 8 January 2021 (as amended and/or supplemented as at the date of issue of the Notes (the “**Issue Date**”), the “**Trust Deed**”) between the Issuer, the Guarantor and DB Trustees (Hong Kong) Limited (the “**Trustee**”, which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for itself and the Noteholders (as defined below). These terms and conditions (the “**Conditions**”) include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Bearer Notes, Certificates, Receipts, Coupons and Talons referred to below. An amended and restated agency agreement dated 8 January 2021 (as amended and/or supplemented as at the Issue Date, the “**Agency Agreement**”) has been entered into in relation to the Notes between the Issuer, the Guarantor, the Trustee, Deutsche Bank AG, Hong Kong Branch as initial issuing and paying agent, as lodging and paying agent for Notes to be held in the Central Moneymarkets Unit Service operated by the Hong Kong Monetary Authority (the “**CMU**”), as registrar and as transfer agent and the other agents named in it. The issuing and paying agent, the CMU lodging and paying agent, the other paying agents, the registrar, the transfer agents and the calculation agent(s) for the time being (if any) are referred to below respectively as the “**Issuing and Paying Agent**”, the “**CMU Lodging and Paying Agent**”, the “**Paying Agents**” (which expression shall include the Issuing and Paying Agent and the CMU Lodging and Paying Agent), the “**Registrar**”, the “**Transfer Agents**” (which expression shall include the Registrar) and the “**Calculation Agent(s)**”. For the purposes of these Conditions, all references to the Issuing and Paying Agent shall, with respect to a Series of Notes to be held in the CMU, be deemed to be a reference to the CMU Lodging and Paying Agent and all such references shall be construed accordingly. Copies of the Trust Deed and the Agency Agreement are available for inspection by the Noteholders at all reasonable times during usual business hours at the principal office of the Trustee (presently at 60/F, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong) and at the specified office of the Issuing and Paying Agent or, as relevant, the CMU Lodging and Paying Agent following written request and proof of holding and identity to the satisfaction of the Trustee, the Issuing and Paying Agent or, as the case may be, the CMU Lodging and Paying Agent.

The Noteholders, the holders of the interest coupons (the “**Coupons**”) relating to interest bearing Notes in bearer form and, where applicable in the case of such Notes, talons for further Coupons (the “**Talons**”) (the “**Couponholders**”) and the holders of the receipts for the payment of instalments of principal (the “**Receipts**” and the holder of Receipts, the “**Receiptholders**”) relating to Notes in bearer form of which the principal is payable in instalments are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those provisions applicable to them of the Agency Agreement.

As used in these Conditions, “**Tranche**” means Notes which are identical in all respects.

1 Form, Denomination and Title

The Notes are issued in bearer form (“**Bearer Notes**”) or in registered form (“**Registered Notes**”) in each case in the Specified Denomination(s) shown hereon.

This Note is a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, an Index Linked Redemption Note, an Instalment Note, a Dual Currency Note or a Partly Paid Note, a combination of any of the foregoing or any other kind of Note, depending upon the Interest and Redemption/Payment Basis shown hereon.

Bearer Notes are serially numbered and are issued with Coupons (and, where appropriate, a Talon) attached, save in the case of Zero Coupon Notes in which case references to interest (other than in relation to interest due after the Maturity Date), Coupons and Talons in these Conditions are not applicable. Instalment Notes are issued with one or more Receipts attached.

Registered Notes are represented by registered certificates (“**Certificates**”) and, save as provided in Condition 2(c), each Certificate shall represent the entire holding of Registered Notes by the same holder.

Title to the Bearer Notes and the Receipts, Coupons and Talons shall pass by delivery. Title to the Registered Notes shall pass by registration in the register that the Issuer shall procure to be kept by the Registrar in Hong Kong in accordance with the provisions of the Agency Agreement (the “**Register**”). Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Note, Receipt, Coupon or Talon shall be deemed to be and may be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it (or on the Certificate representing it) or its theft or loss (or that of the related Certificate) and no person shall be liable for so treating the holder.

In these Conditions, “**Noteholder**” means the bearer of any Bearer Note and the Receipts relating to it or the person in whose name a Registered Note is registered (as the case may be), “**holder**” (in relation to a Note, Receipt, Coupon or Talon) means the bearer of any Bearer Note, Receipt, Coupon or Talon or the person in whose name a Registered Note is registered (as the case may be) and capitalised terms have the meanings given to them hereon, the absence of any such meaning indicating that such term is not applicable to the Notes.

2 No Exchange of Notes and Transfers of Registered Notes

- (a) **No Exchange of Notes:** Registered Notes may not be exchanged for Bearer Notes. Bearer Notes of one Specified Denomination may not be exchanged for Bearer Notes of another Specified Denomination. Bearer Notes may not be exchanged for Registered Notes.
- (b) **Transfer of Registered Notes:** One or more Registered Notes may be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate representing such Registered Notes to be transferred, together with the form of transfer endorsed on such Certificate, (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or the relevant Transfer Agent may require (in light of prevailing market practice). In the case of a transfer of part only of a holding of Registered Notes represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfers of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Trustee, and by the Registrar, with the prior written approval of the Trustee. A copy of the current regulations will be made available by the Registrar to any Noteholder following prior written request and proof of holding and identity to the satisfaction of the Registrar. No transfer of title to any Notes will be valid unless and until entered on the Register.

- (c) **Exercise of Options or Partial Redemption in Respect of Registered Notes:** In the case of an exercise of an Issuer's or Noteholders' option in respect of, or a partial redemption of, a holding of Registered Notes represented by a single Certificate, a new Certificate shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. In the case of a partial exercise of an option resulting in Registered Notes of the same holding having different terms, separate Certificates shall be issued in respect of those Notes of that holding that have the same terms. New Certificates shall only be issued against surrender of the existing Certificates to the Registrar or any Transfer Agent. In the case of a transfer of Registered Notes to a person who is already a holder of Registered Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding.
- (d) **Delivery of New Certificates:** Each new Certificate to be issued pursuant to Conditions 2(b) or 2(c) shall be available for delivery within five business days of receipt of the form of transfer or Exercise Notice (as defined in Condition 6(f)) and surrender of the Certificate for exchange. Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer, Exercise Notice or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer, Exercise Notice or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Transfer Agent the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2(d), "**business day**" means a day, other than a Saturday or Sunday or public holiday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).
- (e) **Transfers Free of Charge:** Transfers of Notes and Certificates on registration, transfer, exercise of an option or partial redemption shall be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agents, but upon (i) payment by the relevant Noteholders of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity and/or security and/or prefunding as the Registrar or the relevant Transfer Agent may require); and (ii) the Registrar being satisfied in its absolute discretion with the documents of title or identity of the person making the application.
- (f) **Closed Periods:** No Noteholder may require the transfer of a Registered Note to be registered (i) during the period of 15 days ending on the due date for redemption of, or payment of any Instalment Amount in respect of, that Note, (ii) during the period of 15 days prior to any date on which Notes may be called for redemption by the Issuer at its option pursuant to Condition 6(d), (iii) after any such Note has been called for redemption or (iv) during the period of seven days ending on (and including) any Record Date.

3 Guarantee and Status

- (a) **Guarantee:** The Guarantor has unconditionally and irrevocably guaranteed the due payment of all sums expressed to be payable by the Issuer under the Trust Deed, the Notes, the Receipts and the Coupons. Its obligations in that respect (the "**Guarantee**") are contained in the Trust Deed.
- (b) **Status of Notes and Guarantee:** The Notes and the Receipts and Coupons relating to them constitute direct, unsubordinated, unconditional, and (subject to Condition 4(a)) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Notes and the Receipts and the Coupons relating to them and of the Guarantor under the Guarantee shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4(a), at all times rank at least equally with all other unsecured and unsubordinated indebtedness and monetary obligations of the Issuer and the Guarantor, respectively, present and future.

4 Covenants

- (a) **Negative Pledge:** So long as any Note or Coupon remains outstanding (as defined in the Trust Deed), neither the Issuer nor the Guarantor will, and will ensure that none of their respective Subsidiaries will, create, or have outstanding, any mortgage, charge, lien, pledge or other security interest, upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness or to secure any guarantee or indemnity in respect of any Relevant Indebtedness, without at the same time or prior thereto according to the Notes and the Coupons the same security as is created or subsisting to secure any such Relevant Indebtedness, guarantee or indemnity or such other security as either (i) the Trustee shall in its absolute discretion deem not materially less beneficial to the interest of the Noteholders or (ii) shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders.
- (b) **Notification to the NDRC:** Where the Circular on Promoting the Reform of the Filings and Registration System for Issuance of Foreign Debt by Enterprises (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知(發改外資[2015]2044號))(the “**NDRC Circular**”) issued by the National Development and Reform Commission of the PRC (the “**NDRC**”) and which came into effect on 14 September 2015 and any implementation rules, regulations, certificates, circulars, notices or policies in connection therewith as issued by the NDRC from time to time applies, for the benefit of the relevant Series or Tranche of Notes to be issued in accordance with these Conditions and the Trust Deed, the Guarantor shall, within the prescribed timeframe after the Issue Date of the relevant Tranche of Notes, file or cause to be filed with the NDRC or its local counterpart the requisite information and documents in accordance with the NDRC Circular (the “**NDRC Post-issue Filing**”) and comply with all applicable PRC laws and regulations in connection therewith.

The Trustee shall have no obligation or duty to monitor or ensure or assist with the completion of the NDRC Post-issue Filing on or before the deadline referred to above or to verify the accuracy, validity and/or genuineness of any certificate, confirmation, or other documents in relation to or in connection with the NDRC Post-issue Filing (each of which it may accept and rely on without investigation and without liability) or to give notice to the Noteholders confirming the completion of the NDRC Post-issue Filing, and shall not be liable to Noteholders or any other person for not doing so.

- (c) **Issuer’s Activities:** The Issuer shall not, and the Guarantor shall procure that the Issuer will not, carry on any business activity whatsoever other than in connection with the notes and the coupons (including the Notes and the Coupons) under its guaranteed medium term note programme (the “**Programme**”) and/or financing activities (such activities shall, for the avoidance of doubt, include but shall not be limited to: (i) the offering, sale or issuance of the notes and the coupons under the Programme; (ii) the activities directly related to the establishment and updates of the Programme and the establishment and/or maintenance of the Issuer’s corporate existence; and (iii) obtaining loans and/or other financing from banks and/or other financial institutions).
- (d) **Definitions:** In these Conditions:

“**Relevant Indebtedness**” means any indebtedness which is in the form of, or represented or evidenced by, bonds, notes, debentures or other investment securities (but excluding for the avoidance of doubt instruments commonly referred to as transferable loan certificates) which for the time being are, or are intended to be or capable of being, quoted, listed or dealt in or traded on any stock exchange or over-the-counter or other securities market but excludes any such indebtedness issued in the PRC; and

“**Subsidiary**” means any entity whose financial statements at any time are required by law or required in accordance with generally accepted accounting principles to be fully consolidated with those of the Issuer or the Guarantor, as the case may be, but shall exclude (i) Yuexiu Real Estate Investment

Trust (“**Yuexiu REIT**”) and any of its Subsidiaries, and (ii) any corporation, association or other entity of which less than (but excluding) 50 per cent. of the voting rights is owned by the Issuer or the Guarantor, as the case may be (either directly or through one or more other Subsidiaries).

5 Interest and other Calculations

(a) **Interest on Fixed Rate Notes:** Each Fixed Rate Note bears interest on its outstanding principal amount from (and including) the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(h).

(b) **Interest on Floating Rate Notes and Index Linked Interest Notes:**

(i) *Interest Payment Dates:* Each Floating Rate Note and Index Linked Interest Note bears interest on its outstanding principal amount from (and including) the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(h). Such Interest Payment Date(s) is/are either shown hereon as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown hereon, Interest Payment Date shall mean each date which falls the number of months or other period shown hereon as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

(ii) *Business Day Convention:* If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

(iii) *Rate of Interest for Floating Rate Notes:* The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period shall be determined in the manner specified hereon and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified hereon.

(A) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate. For the purposes of this sub-paragraph (A), “ISDA Rate” for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

(x) the Floating Rate Option is as specified hereon;

- (y) the Designated Maturity is a period specified hereon; and
- (z) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified hereon.

For the purposes of this sub-paragraph (A), “Floating Rate”, “Calculation Agent”, “Floating Rate Option”, “Designated Maturity”, “Reset Date” and “Swap Transaction” have the meanings given to those terms in the ISDA Definitions.

(B) Screen Rate Determination for Floating Rate Notes

- (x) Where Screen Rate Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period will, subject as provided below, be either:

- (1) the offered quotation; or
- (2) the arithmetic mean of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at either 11.00 a.m. (London time in the case of LIBOR or Brussels time in the case of EURIBOR) on the Interest Determination Date in question as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified hereon as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Notes will be determined as provided hereon.

- (y) If the Relevant Screen Page is not available or if, sub-paragraph (x)(1) applies and no such offered quotation appears on the Relevant Screen Page or if sub-paragraph (x)(2) above applies and fewer than three such offered quotations appear on the Relevant Screen Page in each case as at the time specified above, subject as provided below, the Calculation Agent shall promptly notify the Issuer and the Issuer shall use all commercially reasonable endeavours to appoint an Independent Investment Bank and procure such Independent Investment Bank to request, if the Reference Rate is LIBOR, the principal London office of each of the Reference Banks or, if the Reference Rate is EURIBOR, the principal Euro-zone office of each of the Reference Banks, to provide the Independent Investment Bank and the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time), or if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Independent Investment Bank and the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Accrual Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent.

- (z) If paragraph (y) immediately above applies and the Calculation Agent has received offered quotations from fewer than two Reference Banks, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated at the request of the Independent Investment Bank to the Independent Investment Bank and the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, or, if fewer than two of the Reference Banks provide the Independent Investment Bank and the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time), on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Independent Investment Bank suitable for such purpose) informs the Independent Investment Bank and the Calculation Agent it is quoting to leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum Rate of Interest or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum Rate of Interest or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum Rate of Interest or Minimum Rate of Interest relating to that last preceding Interest Accrual Period).

For the purposes of this Condition 5(b)(iii)(B), “**Independent Investment Bank**” means an independent financial institution of international repute or an independent financial adviser with appropriate experience (which shall not be the Calculation Agent) selected and appointed by the Issuer (at the expense of the Issuer, failing whom the Guarantor) for the purposes of this Condition 5(b)(iii)(B) and notified in writing by the Issuer to the Calculation Agent and the Trustee.

- (iv) *Rate of Interest for Index Linked Interest Notes:* The Rate of Interest in respect of Index Linked Interest Notes for each Interest Accrual Period shall be determined in the manner specified hereon and interest will accrue by reference to an Index or Formula as specified hereon.
- (c) **Zero Coupon Notes:** Where a Note the Interest Basis of which is specified to be Zero Coupon is repayable prior to the Maturity Date and is not paid when due, the amount due and payable prior to the Maturity Date shall be the Early Redemption Amount of such Note. As from the Maturity Date, the Rate of Interest for any overdue principal of such a Note shall be a rate per annum (expressed as a percentage) equal to the Amortisation Yield (as described in Condition 6(b)(i)).
- (d) **Dual Currency Notes:** In the case of Dual Currency Notes, if the rate or amount of interest falls to be determined by reference to a Rate of Exchange or a method of calculating Rate of Exchange, the rate or amount of interest payable shall be determined in the manner specified hereon.

- (e) **Partly Paid Notes:** In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up principal amount of such Notes and otherwise as specified hereon.
- (f) **Accrual of Interest:** Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (both before and after judgment) at the Rate of Interest in the manner provided in this Condition 5 to the Relevant Date (as defined in Condition 8).
- (g) **Margin, Maximum Rates of Interest/Minimum Rates of Interest, Instalment Amounts and Redemption Amounts and Rounding:**
- (i) If any Margin is specified hereon (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with Condition 5(b) above by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin, subject always to Condition 5(g)(ii).
- (ii) If any Maximum Rate of Interest or Minimum Rate of Interest, Instalment Amount or Redemption Amount is specified hereon, then any Rate of Interest, Instalment Amount or Redemption Amount shall be subject to such maximum or minimum, as the case may be.
- (iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up), (y) all figures shall be rounded to seven significant figures (with halves being rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes, “**unit**” means the lowest amount of such currency that is available as legal tender in the country of such currency.
- (h) **Calculations:** The amount of interest payable per Calculation Amount in respect of any Note for any Interest Accrual Period shall be equal to the product of the Rate of Interest, the Calculation Amount specified hereon, and the Day Count Fraction for such Interest Accrual Period, unless an Interest Amount (or a formula for its calculation) is applicable to such Interest Accrual Period, in which case the amount of interest payable per Calculation Amount in respect of such Note for such Interest Accrual Period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable per Calculation Amount in respect of such Interest Period shall be the sum of the Interest Amounts payable in respect of each of those Interest Accrual Periods. In respect of any other period for which interest is required to be calculated, the provisions above shall apply save that the Day Count Fraction shall be for the period for which interest is required to be calculated.
- (i) **Determination and Publication of Rates of Interest, Interest Amounts, Final Redemption Amounts, Early Redemption Amounts, Change of Control Redemption Amount, Optional Redemption Amounts and Instalment Amounts:** The Calculation Agent shall, as soon as practicable on each Interest Determination Date, or such other time on such date as the Calculation Agent may be required to calculate any rate or amount or make any determination or calculation, determine such rate and calculate the Interest Amounts for the relevant Interest Accrual Period, calculate the Final Redemption Amount, Early Redemption Amount, Change of Control Redemption Amount, Optional Redemption Amount or Instalment Amount or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Accrual Period and the relevant Interest Payment Date and, if required to be calculated, the Final Redemption Amount, Early Redemption Amount, Change of Control Redemption Amount, Optional Redemption Amount or any Instalment Amount to be notified to the Trustee, the Issuer, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are

listed on a stock exchange and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 5(b)(ii), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and payable under Condition 10, the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition 5 but no publication of the Rate of Interest or the Interest Amount so calculated need be made unless the Trustee otherwise requires. The determination of any rate or amount and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties and the Noteholders.

- (j) **Definitions:** In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

“Business Day” means:

- (i) in the case of a currency other than euro or Renminbi, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency; and/or
- (ii) in the case of euro, a day on which the TARGET System is operating (a **“TARGET Business Day”**); and/or
- (iii) in the case of Renminbi, a day (other than a Saturday, Sunday or public holiday) on which commercial banks in Hong Kong are generally open for business and settlement of Renminbi payments in Hong Kong; and/or
- (iv) in the case of a currency and/or one or more Business Centres a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Centre(s) or, if no currency is indicated, generally in each of the Business Centres.

“Day Count Fraction” means, in respect of the calculation of an amount of interest on any Note for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period or an Interest Accrual Period, the **“Calculation Period”**):

- (i) if **“Actual/Actual”** or **“Actual/Actual-ISDA”** is specified hereon, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);
- (ii) if **“Actual/365 (Fixed)”** is specified hereon, the actual number of days in the Calculation Period divided by 365;
- (iii) if **“Actual/365 (Sterling)”** is specified hereon, the actual number of days in the Calculation Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (iv) if **“Actual/360”** is specified hereon, the actual number of days in the Calculation Period divided by 360;

- (v) if “30/360”, “360/360” or “Bond Basis” is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y₁” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“Y₂” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“M₁” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“M₂” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“D₁” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D₁ will be 30; and

“D₂” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D₁ is greater than 29, in which case D₂ will be 30;

- (vi) if “30E/360” or “Eurobond Basis” is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y₁” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“Y₂” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“M₁” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“M₂” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“D₁” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D₁ will be 30; and

“D₂” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D₂ will be 30;

- (vii) if “30E/360 (ISDA)” is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y₁” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“Y₂” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“M₁” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“M₂” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“D₁” is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D₁ will be 30; and

“D₂” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D₂ will be 30;

- (viii) if “Actual/Actual-ICMA” is specified hereon:

- (a) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and
- (b) if the Calculation Period is longer than one Determination Period, the sum of:
- (x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and
- (y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year;

where:

“**Determination Period**” means the period from and including a Determination Date in any year to but excluding the next Determination Date; and

“**Determination Date**” means the date(s) specified as such hereon or, if none is so specified, the Interest Payment Date(s).

“**Euro-zone**” means the region comprised of member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended.

“Interest Accrual Period” means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Period Date and each successive period beginning on (and including) an Interest Period Date and ending on (but excluding) the next succeeding Interest Period Date.

“Interest Amount” means:

- (i) in respect of an Interest Accrual Period, the amount of interest payable per Calculation Amount for that Interest Accrual Period and which, in the case of Fixed Rate Notes, and unless otherwise specified hereon, shall mean the Fixed Coupon Amount or Broken Amount specified hereon as being payable on the Interest Payment Date ending the Interest Period of which such Interest Accrual Period forms part; and
- (ii) in respect of any other period, the amount of interest payable per Calculation Amount for that period.

“Interest Commencement Date” means the Issue Date or such other date as may be specified hereon.

“Interest Determination Date” means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such hereon or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling or (ii) the day falling two Business Days in London for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is neither Sterling nor euro or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro, provided that in this definition, “Business Day” shall mean a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in London.

“Interest Period” means the period beginning on and including the Interest Commencement Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date, unless otherwise specified hereon.

“Interest Period Date” means each Interest Payment Date unless otherwise specified hereon.

“ISDA Definitions” means the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., unless otherwise specified hereon.

“Rate of Interest” means the rate of interest payable from time to time in respect of this Note and that is either specified or calculated in accordance with the provisions hereon.

“Reference Banks” means, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market and, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market, in each case selected by the Calculation Agent or as specified hereon.

“Reference Rate” means the rate specified as such hereon.

“Relevant Screen Page” means such page, section, caption, column or other part of a particular information service as may be specified hereon (or any successor or replacement page, section, caption, column or other part of a particular information service).

“Specified Currency” means the currency specified as such hereon or, if none is specified, the currency in which the Notes are denominated.

“**TARGET System**” means the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET2) System which was launched on 19 November 2007 or any successor thereto.

- (k) **Calculation Agent:** The Issuer shall procure that there shall at all times be one or more Calculation Agents if provision is made for them hereon and for so long as any Note is outstanding (as defined in the Trust Deed). Where more than one Calculation Agent is appointed in respect of the Notes, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under these Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Accrual Period or to calculate any Interest Amount, Instalment Amount, Final Redemption Amount, Early Redemption Amount, Change of Control Redemption Amount or Optional Redemption Amount, as the case may be, or to comply with any other requirement, the Issuer shall appoint a leading bank or financial institution engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. No Calculation Agent appointed in respect of the Notes may resign its duties without a successor having been appointed as aforesaid.

- (l) **Benchmark discontinuation:**

(i) *Independent Adviser*

If a Benchmark Event occurs in relation to an Original Reference Rate when any Rate of Interest (or any component part thereof) remains to be determined by reference to such Original Reference Rate, then the Issuer shall, as soon as reasonably practicable, use its reasonable endeavours to appoint, at the expense of the Issuer, failing whom the Guarantor, an Independent Adviser to determine a Successor Rate, failing which an Alternative Rate (in accordance with Condition 5(l)(ii)) and, in either case, an Adjustment Spread and any Benchmark Amendments (in accordance with Condition 5(l)(iv)). In making such determination, the Independent Adviser appointed pursuant to this Condition 5(l) shall act in good faith and in a commercially reasonable manner as an expert. In the absence of bad faith, gross negligence, willful default or fraud, the Independent Adviser shall have no liability whatsoever to the Issuer, the Guarantor, the Trustee, the Paying Agents or the Noteholders, Receiptholders or the Couponholders for any determination made by it pursuant to this Condition 5(l).

If (A) the Issuer is unable to appoint an Independent Adviser; or (B) the Independent Adviser appointed by it fails to determine a Successor Rate or, failing which, an Alternative Rate in accordance with this Condition 5(l) prior to the relevant Interest Determination Date, the Rate of Interest applicable to the next succeeding Interest Accrual Period shall be equal to the Rate of Interest last determined in relation to the Notes in respect of the immediately preceding Interest Accrual Period. If there has not been a first Interest Payment Date, the Rate of Interest shall be the initial Rate of Interest. Where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Accrual Period shall be substituted in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Accrual Period. For the avoidance of doubt, this Condition 5(l) shall apply to the relevant next succeeding Interest Accrual Period only and any subsequent Interest Accrual Periods are subject to the subsequent operation of, and to adjustment as provided in, the first paragraph of this Condition 5(l)(i).

(ii) Successor Rate or Alternative Rate

If the Independent Adviser determines that:

- (A) there is a Successor Rate, then such Successor Rate and the applicable Adjustment Spread shall subsequently be used in place of the Original Reference Rate to determine the Rate of Interest (or the relevant component part thereof) for all future payments of interest on the Notes (subject to the operation of this Condition 5(1)); or
- (B) there is no Successor Rate but that there is an Alternative Rate, then such Alternative Rate and the applicable Adjustment Spread shall subsequently be used in place of the Original Reference Rate to determine the Rate of Interest (or the relevant component part thereof) for all future payments of interest on the Notes (subject to the operation of this Condition 5(1)).

(iii) Adjustment Spread

The Adjustment Spread shall be applied to the Successor Rate or the Alternative Rate (as the case may be). If the Independent Adviser is unable to determine the quantum of, or a formula or methodology for determining, such Adjustment Spread, then the Successor Rate or the Alternative Rate (as applicable) will apply without an Adjustment Spread.

(iv) Benchmark Amendments

If any Successor Rate or Alternative Rate and, in either case, the applicable Adjustment Spread is determined in accordance with this Condition 5(1) and the Independent Adviser determines (A) that amendments to these Conditions and/or the Trust Deed are necessary to ensure the proper operation of such Successor Rate or Alternative Rate and/or (in either case) the applicable Adjustment Spread (such amendments, the “**Benchmark Amendments**”) and (B) the terms of the Benchmark Amendments, then the Issuer shall, subject to giving notice thereof in accordance with Condition 5(1)(v), without any requirement for the consent or approval of Noteholders, vary these Conditions and/or the Trust Deed to give effect to such Benchmark Amendments with effect from the date specified in such notice.

At the written request of the Issuer, but subject to receipt by the Trustee of a certificate signed by an Authorised Signatory of the Issuer pursuant to Condition 5(1)(v), the Trustee shall (at the expense of the Issuer, failing whom the Guarantor), without any requirement for the consent or approval of the Noteholders, be obliged to concur with the Issuer in effecting any Benchmark Amendments (including, *inter alia*, by the execution of a deed supplemental to or amending the Trust Deed), provided that the Trustee shall not be obliged so to concur if in the opinion of the Trustee doing so would impose more onerous obligations upon it or expose it to any additional duties, responsibilities or liabilities or reduce or amend the protective provisions afforded to the Trustee in these Conditions or the Trust Deed (including, for the avoidance of doubt, any supplemental trust deed) in any way.

Notwithstanding any other provision of this Condition 5(1), neither the Calculation Agent nor any Paying Agent is obliged to concur with the Issuer or the Independent Adviser in respect of any changes or amendments as contemplated under this Condition 5(1) to which, in the sole opinion of the Calculation Agent or the relevant Paying Agent, as the case may be, would impose more onerous obligations upon it or expose it to any additional duties, responsibilities or liabilities or reduce or amend the protective provisions afforded to the Calculation Agent or the relevant Paying Agent (as applicable) in the Agency Agreement and/or these Conditions.

In connection with any such variation in accordance with this Condition 5(1)(iv), the Issuer shall comply with the rules of any stock exchange on which the Notes are for the time being listed or admitted to trading.

(v) *Notices, etc.*

Any Successor Rate, Alternative Rate, Adjustment Spread and the specific terms of any Benchmark Amendments, determined under this Condition 5(1) will be notified promptly by the Issuer to the Trustee, the Calculation Agent, the Paying Agents. In accordance with Condition 16, notice shall be provided to the Noteholders promptly thereafter. Such notice shall be irrevocable and shall specify the effective date of the Benchmark Amendments, if any.

No later than notifying the Noteholders of the same, the Issuer shall deliver to the Trustee, the Calculation Agent and the Paying Agents a certificate signed by an Authorised Signatory of the Issuer:

- (A) confirming (I) that a Benchmark Event has occurred, (II) the Successor Rate or, as the case may be, the Alternative Rate, (III) the applicable Adjustment Spread and (IV) the specific terms of the Benchmark Amendments (if any), in each case as determined in accordance with the provisions of this Condition 5(1); and
- (B) certifying that the Benchmark Amendments (if any) are necessary to ensure the proper operation of such Successor Rate or Alternative Rate and (in either case) the applicable Adjustment Spread.

Each of the Trustee, the Calculation Agent and the Paying Agents shall be entitled to accept without verification or investigation and to rely conclusively on such certificate (without liability to any person) as sufficient evidence thereof. The Successor Rate or Alternative Rate and the Adjustment Spread (if any) and the Benchmark Amendments (if any) specified in such certificate will (in the absence of manifest error, willful default or bad faith in the determination of the Successor Rate or Alternative Rate and the Adjustment Spread (if any) and the Benchmark Amendments (if any) and without prejudice to the Trustee's or the Calculation Agent's or the Paying Agents' ability to rely on such certificate as aforesaid) be binding on the Issuer, the Trustee, the Calculation Agent, the Paying Agents and the Noteholders. The Trustee shall be protected and shall have no liability to any Noteholder, the Issuer, the Guarantor or any other person for so accepting and relying on any such certificate and/or opinion.

Notwithstanding any other provision of this Condition 5(1), if in the Calculation Agent's opinion there is any uncertainty between two or more alternative courses of action in making any determination or calculation under this Condition 5(1), the Calculation Agent shall promptly notify the Issuer thereof and the Issuer shall direct the Calculation Agent in writing as to which alternative course of action to adopt. If the Calculation Agent is not promptly provided with such direction, or is otherwise unable (other than due to its own gross negligence, willful default or fraud) to make such calculation or determination for any reason, it shall notify the Issuer thereof and the Calculation Agent shall be under no obligation to make such calculation or determination and (in the absence of such gross negligence, willful default or fraud) shall not incur any liability to any person for not doing so.

(vi) *Survival of Original Reference Rate*

Without prejudice to the obligations of the Issuer under Conditions 5(1)(i), 5(1)(ii), 5(1)(iii) and 5(1)(iv), the Original Reference Rate and the fallback provisions provided for in Condition 5(b)(iii)(B) will continue to apply unless and until a Benchmark Event has occurred.

(vii) Definitions

As used in this Condition 5(l):

“**Adjustment Spread**” means either (a) a spread (which may be positive, negative or zero) or (b) a formula or methodology for calculating a spread, in each case to be applied to the Successor Rate or the Alternative Rate (as the case may be) and is the spread, formula or methodology which:

- (i) in the case of a Successor Rate, is formally recommended in relation to the replacement of the Original Reference Rate with the Successor Rate by any Relevant Nominating Body; or (if no such recommendation has been made, or in the case of an Alternative Rate);
- (ii) the Independent Adviser determines, is customarily applied to the relevant Successor Rate or the Alternative Rate (as the case may be) in international debt capital markets transactions to produce an industry-accepted replacement rate for the Original Reference Rate; or (if the Independent Adviser determines that no such spread is customarily applied);
- (iii) the Independent Adviser determines is recognised or acknowledged as being the industry standard for over-the-counter derivative transactions which reference the Original Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Rate (as the case may be);

“**Alternative Rate**” means an alternative benchmark or screen rate which the Independent Adviser, determines in accordance with Condition 5(l)(ii) is customarily applied in international debt capital markets transactions for the purposes of determining rates of interest (or the relevant component part thereof) in the same Specified Currency as the Notes and of a comparable duration to the relevant Interest Accrual Period, or, if the Independent Adviser determines there is no such rate, such other rate as the Independent Adviser determines in its discretion (acting in a reasonable manner) is most comparable to the relevant Reference Rate;

“**Benchmark Amendments**” has the meaning given to it in Condition 5(l)(iv);

“**Benchmark Event**” means:

- (i) the Original Reference Rate ceasing to be published for a period of at least five Business Days or ceasing to exist; or
- (ii) a public statement by the administrator of the Original Reference Rate that it has ceased or that it will cease publishing the Original Reference Rate permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of the Original Reference Rate); or
- (iii) a public statement by the supervisor of the administrator of the Original Reference Rate, that the Original Reference Rate has been or will be permanently or indefinitely discontinued; or
- (iv) a public statement by the supervisor of the administrator of the Original Reference Rate as a consequence of which the Original Reference Rate will be prohibited from being used either generally, or in respect of the Notes; or

- (v) a public statement by the supervisor of the administrator of the Original Reference Rate that, with effect from a date after 31 December 2021, the Original Reference Rate is or will be (or is or will be deemed by such supervisor to be) no longer representative of its relevant underlying market; or
- (vi) it has become unlawful for any Paying Agent, the Calculation Agent, the Issuer or other party to calculate any payments due to be made to any Noteholder using the Original Reference Rate,

provided that the Benchmark Event shall be deemed to occur (A) in the case of sub-paragraphs (ii) and (iii) above of this definition, on the date of the cessation of publication of the Original Reference Rate or the discontinuation of the Original Reference Rate, as the case may be, (B) in the case of sub-paragraph (iv) above of this definition, on the date of the prohibition of use of the Original Reference Rate and (C) in the case of sub-paragraph (v) above of this definition, on the date with effect from which the Original Reference Rate will no longer be (or will be deemed by the relevant supervisor to no longer be) representative of its relevant underlying market and which is specified in the relevant public statement, and, in each case, not the date of the relevant public statement.

The occurrence of a Benchmark Event shall be determined by the Issuer and promptly notified to the Trustee, the Calculation Agent and the Paying Agents. For the avoidance of doubt, none of the Trustee, the Calculation Agent or the Paying Agents shall have any responsibility or liability for making such determination and shall have no obligation to monitor whether any Benchmark Event has occurred;

“Independent Adviser” means an independent financial institution of international repute or an independent financial adviser with appropriate expertise selected and appointed by the Issuer (at the expense of the Issuer, failing whom the Guarantor) under Condition 5(1)(i);

“Original Reference Rate” means the originally-specified benchmark or screen rate (as applicable) used to determine the Rate of Interest (or any component part thereof) on the Notes;

“Relevant Nominating Body” means, in respect of a benchmark or screen rate (as applicable):

- (i) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable); or
- (ii) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of (A) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, (B) any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable), (C) a group of the aforementioned central banks or other supervisory authorities or (D) the Financial Stability Board or any part thereof; and

“Successor Rate” means a successor to or replacement of the Original Reference Rate which is formally recommended by any Relevant Nominating Body.

6 Redemption, Purchase and Options

(a) Redemption by Instalments and Final Redemption:

- (i) Unless previously redeemed, purchased and cancelled as provided in this Condition 6, each Note that provides for Instalment Dates and Instalment Amounts shall be partially redeemed on each Instalment Date at the related Instalment Amount specified hereon. The outstanding principal amount of each such Note shall be reduced by the Instalment Amount (or, if such Instalment Amount is calculated by reference to a proportion of the principal amount of such Note, such proportion) for all purposes with effect from the related Instalment Date, unless payment of the Instalment Amount is improperly withheld or refused, in which case, such amount shall remain outstanding until the Relevant Date relating to such Instalment Amount.
- (ii) Unless previously redeemed, purchased and cancelled as provided in this Condition 6, each Note shall be finally redeemed on the Maturity Date specified hereon at its Final Redemption Amount (which, unless otherwise provided hereon, is its principal amount) or, in the case of a Note falling within Condition 6(a)(i), its final Instalment Amount.

(b) Early Redemption:

(i) *Zero Coupon Notes:*

- (A) The Early Redemption Amount payable in respect of any Zero Coupon Note, the Early Redemption Amount of which is not linked to an index and/or a formula, upon redemption of such Note pursuant to Condition 6(c) or upon it becoming due and payable as provided in Condition 10 shall be the Amortised Face Amount (calculated as provided below) of such Note unless otherwise specified hereon.
- (B) Subject to the provisions of sub-paragraph (C) of this Condition 6(b)(i), the Amortised Face Amount of any such Note shall be the scheduled Final Redemption Amount of such Note on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield (which, if none is shown hereon, shall be such rate as would produce an Amortised Face Amount equal to the issue price of the Notes if they were discounted back to their issue price on the Issue Date) compounded annually.
- (C) If the Early Redemption Amount payable in respect of any such Note upon its redemption pursuant to Condition 6(c) or upon it becoming due and payable as provided in Condition 10 is not paid when due, the Early Redemption Amount due and payable in respect of such Note shall be the Amortised Face Amount of such Note as defined in sub-paragraph (B) above of this Condition 6(b)(i), except that such sub-paragraph shall have effect as though the date on which the Note becomes due and payable were the Relevant Date. The calculation of the Amortised Face Amount in accordance with this sub-paragraph (C) shall continue to be made (both before and after judgment) until the Relevant Date, unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the scheduled Final Redemption Amount of such Note on the Maturity Date together with any interest that may accrue in accordance with Condition 5(c).

Where such calculation is to be made for a period of less than one year, it shall be made on the basis of the Day Count Fraction shown hereon.

- (ii) *Other Notes:* The Early Redemption Amount payable in respect of any Note (other than Notes described in Condition 6(b)(i)), upon redemption of such Note pursuant to Condition 6(c) or upon it becoming due and payable as provided in Condition 10, shall be the Final Redemption Amount unless otherwise specified hereon.

- (c) **Redemption for Taxation Reasons:** The Notes may be redeemed at the option of the Issuer in whole, but not in part, on any Interest Payment Date (if this Note is either a Floating Rate Note or an Index Linked Interest Note) or at any time (if this Note is neither a Floating Rate Note nor an Index Linked Interest Note), on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable) and in writing to the Trustee and the Issuing and Paying Agent, at their Early Redemption Amount (as described in Condition 6(b) above) (together with interest accrued to the date fixed for redemption), if (i) the Issuer (or, if the Guarantee were called, the Guarantor) satisfies the Trustee immediately before the giving of such notice that it has or will become obliged to pay additional amounts as described under Condition 8 as a result of any change in, or amendment to, the laws or regulations of the PRC or any political subdivision thereof or therein or Hong Kong or, in any such case, any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes, and (ii) such obligation cannot be avoided by the Issuer or the Guarantor, as the case may be, taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or the Guarantor, as the case may be, would be obliged to pay such additional amounts were a payment in respect of the Notes or the Guarantee, as the case may be, then due. Prior to the publication of any notice of redemption pursuant to this Condition 6(c), the Issuer (or the Guarantor, as the case may be) shall deliver to the Trustee a certificate in English signed by an Authorised Signatory of the Issuer or, as the case may be, of the Guarantor and an opinion from an independent tax or legal advisor of the Issuer or the Guarantor, as the case may be, in each case stating that the obligation referred to in (i) above of this Condition 6(c) cannot be avoided by the Issuer or the Guarantor, as the case may be, taking reasonable measures available to it, and the Trustee shall be entitled to, without further enquiry and without liability to any Noteholder, any Couponholder or any other person, accept such certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent set out in (ii) above of this Condition 6(c), in which event the same shall be conclusive and binding on Noteholders and Couponholders.
- (d) **Redemption at the Option of the Issuer:** If Call Option is specified hereon, the Issuer may, on giving not less than 15 nor more than 30 days' irrevocable notice to the Noteholders (or such other notice period as may be specified hereon) redeem all or, if so provided, some of the Notes on any Optional Redemption Date. Any such redemption of Notes shall be at their Optional Redemption Amount, together with interest accrued to the date fixed for redemption. Any such redemption or exercise must relate to Notes of a principal amount at least equal to the Minimum Redemption Amount to be redeemed specified hereon and no greater than the Maximum Redemption Amount to be redeemed specified hereon.

All Notes in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition 6(d).

In the case of a partial redemption the notice to Noteholders shall also contain the certificate numbers of the Bearer Notes, or in the case of Registered Notes shall specify the principal amount of Registered Notes drawn and the holder(s) of such Registered Notes, to be redeemed, which shall have been drawn in such place as the Trustee may approve and in such manner as it deems appropriate, subject to compliance with any applicable laws and stock exchange or other relevant authority requirements.

- (e) **Redemption following Change of Control:** If Change of Control Put Option is specified hereon and if, at any time while any of the Notes remains outstanding, a Change of Control Put Event (as defined below) occurs, then the holder of each such Note will have the option (a "**Change of Control Put Option**") (unless prior to the giving of the relevant Change of Control Put Event Notice (as defined below) the Issuer has given notice of redemption under Condition 6(c) or Condition 6(d) above) to require the Issuer to redeem or, at the Issuer's option, purchase (or procure the purchase of) that Note on the date which is seven days after the expiration of the Put Period (as defined below) (or such other date as may be specified hereon, the "**Put Date**") at the Change of Control Redemption Amount specified hereon together with (or, where purchased, together with an amount equal to) interest (if any) accrued to (but excluding) the Put Date.

A “**Change of Control Put Event**” will be deemed to occur if:

- (i) the State-owned Assets Supervision and Administration Commission of the Guangzhou Municipal People’s Government (“**GZ SASAC**”), Guangzhou Yuexiu Holdings Limited (“**GZ Yuexiu**”) or their respective successors ceases to have, either directly or indirectly or as the beneficiary of a trust, acting individually or together, control of the Guarantor; or
- (ii) any person or persons, acting together, acquires, directly or indirectly, voting rights of the issued share capital of the Guarantor and the aggregate voting rights held by such person or persons exceed the voting rights held, directly or indirectly, by GZ SASAC or GZ Yuexiu; or
- (iii) the Guarantor consolidates with or merges into or sells or transfers all or substantially all of the Guarantor’s assets to any other person, unless the consolidation, merger, sale or transfer will not result in the other person or persons acquiring control over the Guarantor or the successor entity.

Promptly upon the Issuer or the Guarantor becoming aware that a Change of Control Put Event has occurred, the Issuer shall, or in the case of the Guarantor, the Guarantor shall procure that the Issuer will, give notice (a “**Change of Control Put Event Notice**”) to the Noteholders in accordance with Condition 16 specifying the nature of the Change of Control Put Event and the procedure for exercising the Change of Control Put Option.

To exercise the Change of Control Put Option, the holder of the Note must (in the case of Bearer Notes) deposit such Note (together with all unmatured Receipts and Coupons and unexchanged Talons) with any Paying Agent or (in the case of Registered Notes) deposit the Certificate representing such Note(s) with the Registrar or any Transfer Agent at its specified office, in each case at any time during normal business hours in the location of the specified office of such Paying Agent, Registrar or Transfer Agent, as the case may be, falling within the period (the “**Put Period**”) of no earlier than 30 days and no later than 60 days after a Change of Control Put Event Notice is given or such other date as may be specified hereon, accompanied by a duly signed and completed notice of exercise in the form (for the time being current) obtainable from the specified office of any Paying Agent, Registrar or Transfer Agent, as the case may be (a “**Change of Control Put Exercise Notice**”). No Note or Certificate so deposited and option so exercised may be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Issuer. The Issuer shall redeem or purchase (or procure the purchase of) the relevant Notes on the Put Date unless previously redeemed (or purchased) and cancelled.

Neither the Trustee nor any Agent is under any obligation to ascertain or verify whether a Change of Control Put Event or any event which could lead to the occurrence of or could constitute a Change of Control Put Event has occurred, and, until it shall have express written notice pursuant to the Trust Deed or the Agency Agreement to the contrary, the Trustee and each Agent may assume that no Change of Control Put Event or other such event has occurred.

In this Condition 6(e):

“**control**” means the acquisition or control of more than 35 per cent. of the voting rights of the issued share capital of the Guarantor or the right to appoint and/or remove all or the majority of the members of the Guarantor’s board of directors or other governing body, whether obtained directly or indirectly, and whether obtained by ownership of share capital, the possession of voting rights, contract or otherwise; and

a “**person**” includes any individual, company, corporation, firm, partnership, joint venture, undertaking, association, organisation, trust, state or agency of a state (in each case whether or not being a separate legal entity) but does not include the board of directors or any other governing board and does not include the Guarantor’s wholly owned direct or indirect subsidiaries.

- (f) **Redemption at the Option of Noteholders:** If Put Option is specified hereon, the Issuer shall, at the option of the holder of any such Note, upon the holder of such Note giving not less than 30 nor more than 60 days' notice to the Issuer (or such other notice period as may be specified hereon) redeem such Note on the Optional Redemption Date(s) at its Optional Redemption Amount together with interest accrued to the date fixed for redemption.

To exercise such option the holder must deposit (in the case of Bearer Notes) such Note (together with all unmatured Receipts and Coupons and unexchanged Talons) with any Paying Agent or (in the case of Registered Notes) the Certificate representing such Note(s) with the Registrar or any Transfer Agent at its specified office, together with a duly completed option exercise notice (an "Exercise Notice") in the form obtainable from any Paying Agent, the Registrar or any Transfer Agent (as applicable) within the notice period. No Note or Certificate so deposited and option exercised may be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Issuer.

- (g) **Partly Paid Notes:** Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the provisions specified hereon.
- (h) **Purchases:** Each of the Issuer, the Guarantor and their respective Subsidiaries may at any time purchase Notes (provided that all unmatured Receipts and Coupons and unexchanged Talons relating thereto are attached thereto or surrendered therewith) in the open market or otherwise at any price.
- (i) **Cancellation:** All Notes purchased by or on behalf of the Issuer, the Guarantor or any of their respective Subsidiaries may be surrendered for cancellation, in the case of Bearer Notes, by surrendering each such Note together with all unmatured Receipts and Coupons and all unexchanged Talons to the Issuing and Paying Agent and, in the case of Registered Notes, by surrendering the Certificate representing such Notes to the Registrar and, in each case, if so surrendered, the same shall, together with all Notes redeemed by the Issuer, be cancelled forthwith (together with all unmatured Receipts and Coupons and unexchanged Talons attached thereto or surrendered therewith). Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer and the Guarantor in respect of any such Notes shall be discharged.

7 Payments and Talons

- (a) **Bearer Notes:** Payments of principal and interest in respect of Bearer Notes shall, subject as mentioned below, be made against presentation and surrender of the relevant Receipts (in the case of payments of Instalment Amounts other than on the due date for redemption and provided that the Receipt is presented for payment together with its relative Note), Notes (in the case of all other payments of principal and, in the case of interest, as specified in Condition 7(f)(vi)) or Coupons (in the case of interest, save as specified in Condition 7(f)(ii)), as the case may be, at the specified office of any Paying Agent outside the United States:
- (i) in the case of a currency other than Renminbi, by transfer to an account denominated in such currency with, a Bank; and
- (ii) in the case of Renminbi, by transfer to a Renminbi account maintained by or on behalf of the Noteholder with a bank in Hong Kong.

In this Condition 7(a) and in Condition 7(b), "**Bank**" means a bank in the principal financial centre for such currency or, in the case of euro, in a city in which banks have access to the TARGET System.

(b) **Registered Notes:**

- (i) Payments of principal (which for the purposes of this Condition 7(b) shall include final Instalment Amounts but not other Instalment Amounts) in respect of Registered Notes shall be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in Condition 7(b)(ii).
- (ii) Interest (which for the purpose of this Condition 7(b) shall include all Instalment Amounts other than final Instalment Amounts) on Registered Notes shall be paid to the person shown on the Register at the close of business on the fifteenth day before the due date for payment thereof or in the case of Renminbi or otherwise specified, on the fifth day before the due date for payment thereof (the “**Record Date**”). Payments of interest on each Registered Note shall be made in the relevant currency by transfer to the registered account of the Noteholder.

In this Condition 7(b)(ii), “**registered account**” means the account in the relevant currency maintained by or on behalf of the Noteholder with a bank in Hong Kong (in the case of Renminbi) or with the Bank (in the case of other currencies), details of which appear on the Register at the close of business on the Record Date.

- (c) **Payments in the United States:** Notwithstanding the foregoing, if any Bearer Notes are denominated in US dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if (i) the Issuer shall have appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Notes in the manner provided above when due, (ii) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts and (iii) such payment is then permitted by United States law, without involving, in the opinion of the Issuer, any adverse tax consequence to the Issuer.
- (d) **Payments subject to Fiscal Laws:** All payments are subject in all cases to (i) any applicable fiscal or other laws, regulations and directives in the place of payments, but without prejudice to the provisions of Condition 8 and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the US Internal Revenue Code of 1986 (the “**Code**”) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 8) any law implementing an intergovernmental approach thereto. No commission or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.
- (e) **Appointment of Agents:** The Issuing and Paying Agent, the CMU Lodging and Paying Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent initially appointed by the Issuer and the Guarantor and their respective specified offices are listed below. The Issuing and Paying Agent, the CMU Lodging and Paying Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent act solely as agents of the Issuer and the Guarantor and do not assume any obligation or relationship of agency or trust for or with any Noteholder or Couponholder. The Issuer and the Guarantor reserve the right at any time to vary or terminate the appointment of the Issuing and Paying Agent, the CMU Lodging and Paying Agent, any other Paying Agent, the Registrar, any Transfer Agent or the Calculation Agent(s) and to appoint additional or other Paying Agents or Transfer Agents, provided that the Issuer and the Guarantor shall at all times maintain (i) an Issuing and Paying Agent, (ii) a Registrar in relation to Registered Notes, (iii) a Transfer Agent in relation to Registered Notes, (iv) a CMU Lodging and Paying Agent in relation to Notes accepted for clearance through the CMU, (v) one or more Calculation Agent(s) where the Conditions so require, and (vi) such other agents as may be required by any other stock exchange on which the Notes may be listed.

In addition, the Issuer and the Guarantor shall forthwith appoint a Paying Agent in New York City in respect of any Bearer Notes denominated in US dollars in the circumstances described in Condition 7(c) immediately above.

Notice of any such change or any change of any specified office shall promptly be given by the Issuer to the Noteholders.

(f) Unmatured Coupons and Receipts and unexchanged Talons:

- (i) Upon the due date for redemption of Bearer Notes which comprise Fixed Rate Notes (other than Dual Currency Notes or Index Linked Interest Notes), such Notes should be surrendered for payment together with all unexpired Coupons (if any) relating thereto, failing which an amount equal to the face value of each missing unexpired Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unexpired Coupon that the sum of principal so paid bears to the total principal due) shall be deducted from the Final Redemption Amount, Early Redemption Amount, Change of Control Redemption Amount or Optional Redemption Amount, as the case may be, due for payment. Any amount so deducted shall be paid in the manner mentioned above against surrender of such missing Coupon within a period of 10 years from the Relevant Date for the payment of such principal (whether or not such Coupon has become void pursuant to Condition 9).
 - (ii) Upon the due date for redemption of any Bearer Note comprising a Floating Rate Note, Dual Currency Note or Index Linked Redemption Note, unexpired Coupons relating to such Note (whether or not attached) shall become void and no payment shall be made in respect of them.
 - (iii) Upon the due date for redemption of any Bearer Note, any unexpired Talon relating to such Note (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.
 - (iv) Upon the due date for redemption of any Bearer Note that is redeemable in instalments, all Receipts relating to such Note having an Instalment Date falling on or after such due date (whether or not attached) shall become void and no payment shall be made in respect of them.
 - (v) Where any Bearer Note that provides that the relative unexpired Coupons are to become void upon the due date for redemption of those Notes is presented for redemption without all unexpired Coupons, and where any Bearer Note is presented for redemption without any unexpired Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.
 - (vi) If the due date for redemption of any Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date, as the case may be, shall only be payable against presentation (and surrender if appropriate) of the relevant Bearer Note or Certificate representing it, as the case may be. Interest accrued on a Note that only bears interest after its Maturity Date shall be payable on redemption of such Note against presentation of the relevant Note or Certificate representing it, as the case may be.
- (g) **Talons:** On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Bearer Note, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Issuing and Paying Agent in exchange for a further Coupon sheet (and if necessary another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 9).

- (h) **Non-Business Days:** If any date for payment in respect of any Note, Receipt or Coupon is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this Condition 7(h), “**business day**” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the relevant place of presentation, in such jurisdictions as shall be specified as “**Financial Centres**” hereon and:
- (i) (in the case of a payment in a currency other than euro and Renminbi) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency;
 - (ii) (in the case of a payment in euro) which is a TARGET Business Day; or
 - (iii) (in the case of a payment in Renminbi) on which banks and foreign exchange markets are open for business and settlement of Renminbi payments in Hong Kong.

*If the Registered Notes are in global form and deposited with a common depository on behalf of Euroclear and/or Clearstream, each payment will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the record date which shall be on the Clearing System Business Day immediately prior to the date for payment, where “**Clearing System Business Day**” means Monday to Friday inclusive except 25 December and 1 January.*

8 Taxation

All payments of principal, premium (if any) and interest by or on behalf of the Issuer or the Guarantor in respect of the Notes, the Receipts and the Coupons or under the Guarantee shall be made free and clear of, and without set-off or counterclaim and without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the PRC or any political subdivision therein or thereof or Hong Kong or, in each case, any authority therein or thereof having power to tax, unless such withholding or deduction is required by law.

Where such withholding or deduction is required to be made by the Issuer or, as the case may be, the Guarantor by or within the PRC at the rate of up to and including the aggregate rate applicable on the date on which agreement is reached to issue the first Tranche of the Notes (the “**Applicable Rate**”), the Issuer or the Guarantor, as the case may be, will increase the amounts paid by it to the extent required, so that the net amount received by Noteholders and Couponholders equals the amounts which would otherwise have been receivable by them had no such withholding or deduction been required.

If (i) the Issuer or, as the case may be, the Guarantor is required to make any such withholding or deduction by or within Hong Kong, or (ii) the Issuer or, as the case may be, the Guarantor is required to make any such additional withholding or deduction in excess of the Applicable Rate by or within the PRC, the Issuer or, as the case may be, the Guarantor shall pay such additional amounts as shall result in receipt by the Noteholders and Couponholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable with respect to any Note, Receipt or Coupon:

- (a) **Other connection:** to, or to a third party on behalf of, a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note, Receipt or Coupon by reason of his having some connection with Hong Kong or the PRC other than the mere holding of the Note, Receipt or Coupon; or

- (b) **Presentation more than 30 days after the Relevant Date:** presented (or in respect of which the Certificate representing it is presented) for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on presenting it for payment on the thirtieth day.

As used in these Conditions, “**Relevant Date**” in respect of any Note, Receipt or Coupon means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders that, upon further presentation of the Note (or relative Certificate), Receipt or Coupon being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such presentation. References in these Conditions to (i) “**principal**” shall be deemed to include any premium payable in respect of the Notes, all Instalment Amounts, Final Redemption Amounts, Early Redemption Amounts, Change of Control Redemption Amounts, Optional Redemption Amounts, Amortised Face Amounts and all other amounts in the nature of principal payable pursuant to Condition 6 or any amendment or supplement to it, (ii) “**interest**” shall be deemed to include all Interest Amounts and all other amounts payable pursuant to Condition 5 or any amendment or supplement to it and (iii) “**principal**” and/or “**interest**” shall be deemed to include any additional amounts that may be payable under this Condition 8 or any undertaking given in addition to or in substitution for it under the Trust Deed.

For the avoidance of doubt, neither the Trustee nor any Agent shall be responsible or liable for paying any tax, duty, charges, withholding or other payment referred to in this Condition 8 or for determining whether such amounts are payable or the amount thereof, and none of the Trustee or any of the Agents shall be responsible or liable for (A) determining whether the Issuer, the Guarantor or any Noteholder, Receiptholder or Couponholder is liable to pay any taxes, duty, charges, withholding or other payment referred to in this Condition 8; or (B) determining the sufficiency or insufficiency of any amounts so paid. None of the Trustee or the Agents shall be responsible or liable for any failure of the Issuer, the Guarantor, any Noteholder, Receiptholder or Couponholder, or any other third party to pay such tax, duty, charges, withholding or other payment in any jurisdiction or to provide any notice or information to the Trustee or any Agent that would permit, enable or facilitate the payment of any principal, premium (if any), interest or other amount under or in respect of the Notes without deduction or withholding for or on account of any tax, duty, charge, withholding or other payment imposed by or in any jurisdiction.

9 Prescription

Claims against the Issuer and/or the Guarantor for payment in respect of the Notes, Receipts and Coupons (which, for this purpose, shall not include Talons) shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

10 Events of Default

If any of the following events (“**Events of Default**”) occurs and is continuing, the Trustee at its discretion may, and if so requested in writing by holders of at least 25 per cent. in principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution shall (subject in each case to being indemnified and/or secured and/or pre-funded to its satisfaction), give notice to the Issuer and the Guarantor that the Notes are, and they shall immediately become, due and payable at their Early Redemption Amount together (if applicable) with accrued and unpaid interest:

- (i) **Non-Payment:** default is made (i) in the payment of any principal when due or (ii) for more than seven days in the payment of interest due in respect of the Notes; or

- (ii) **Breach of Other Obligations:** the Issuer or the Guarantor does not perform or comply with any one or more of its other obligations in the Notes or the Trust Deed which default is in the opinion of the Trustee incapable of remedy or, if capable of remedy in the opinion of the Trustee, is not remedied within 30 days after written notice of such default shall have been given to the Issuer or, as the case may be, the Guarantor by the Trustee; or
- (iii) **Cross-Default:** (A) any other present or future indebtedness of the Issuer or the Guarantor or any of their respective Subsidiaries for or in respect of moneys borrowed or raised becomes (or becomes capable of being declared) due and payable prior to its stated maturity by reason of any actual or potential default, event of default or the like (howsoever described), or (B) any such indebtedness is not paid when due or, as the case may be, within any originally applicable grace period, or (C) the Issuer, the Guarantor or any of their respective Subsidiaries fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised, provided that the aggregate amount of the relevant indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this Condition 10(iii) have occurred equals or exceeds US\$40 million or its equivalent (on the basis of the middle spot rate for the relevant currency against the US dollar as quoted by any leading bank on the day on which such equivalent is determined for the purposes of this Condition 10(iii)); or
- (iv) **Enforcement Proceedings:** a distress, attachment, execution or other legal process is levied, enforced or sued out on or against any material part of the property, assets or revenues of the Issuer or the Guarantor or any of their respective Principal Subsidiaries and is not discharged or stayed within 90 days; or
- (v) **Security Enforced:** any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer or the Guarantor or any of their respective Principal Subsidiaries on the whole or any material part of its assets becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, administrative receiver, administrator manager or other similar person) and is not discharged or stayed within 90 days; or
- (vi) **Insolvency:** any of the Issuer or the Guarantor or any of their respective Principal Subsidiaries is adjudicated or found to be insolvent or bankrupt or unable to pay its debts, stops, suspends or threatens to stop or suspend payment of all or a material part of (or of a particular type of) its debts, proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of all or a material part of (or of a particular type of) the debts of the Issuer or the Guarantor or any of their respective Principal Subsidiaries or a moratorium is agreed or declared or comes into effect in respect of or affecting all or a material part of (or of a particular type of) the debts of the Issuer or the Guarantor or any of their respective Principal Subsidiaries; or
- (vii) **Winding-up:** an administrator is appointed, an order is made or an effective resolution passed for the winding-up or dissolution or administration of the Issuer or the Guarantor or any of their respective Principal Subsidiaries, or the Issuer or the Guarantor or any of their respective Principal Subsidiaries shall apply or petition for a winding-up or administration order in respect of itself or ceases or threatens to cease to carry on all or substantially all of its business or operations, in each case except (i) for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation on terms approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders or (ii) in the case of a Principal Subsidiary, whereby the undertaking and assets of the Principal Subsidiary are transferred to or otherwise vested in the Issuer or the Guarantor or any of their respective Subsidiaries, in any combination or (iii) in the case of any Principal Subsidiary, in the case of a solvent winding-up or dissolution whereby the undertaking and assets of the Principal Subsidiary are transferred

to or otherwise vested in the Issuer or the Guarantor, as the case may be, or any of their respective Subsidiaries or (iv) in the case of any Principal Subsidiary, as a result of a disposal on arm's length terms whereby the proceeds from such disposal are transferred to or otherwise vested in the Issuer or the Guarantor, as the case may be, or any of their respective Subsidiaries; or

- (viii) **Nationalisation:** any step is taken by any person with a view to the seizure, compulsory acquisition, expropriation or nationalisation of all or a material part of the assets of the Issuer or the Guarantor or any of their respective Principal Subsidiaries; or
- (ix) **Authorisation and Consents:** any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order (i) to enable the Issuer and the Guarantor lawfully to enter into, exercise their respective rights and perform and comply with their respective obligations under the Notes and the Trust Deed, (ii) to ensure that those obligations are legally binding and enforceable and (iii) to make the Notes and the Trust Deed admissible in evidence in the courts of England is not taken, fulfilled or done; or
- (x) **Illegality:** it is or will become unlawful for the Issuer or the Guarantor to perform or comply with any one or more of their respective obligations under any of the Notes or the Trust Deed; or
- (xi) **Cessation of Ownership:** the Issuer ceases to be a direct or indirect wholly-owned Subsidiary of the Guarantor; or
- (xii) **Guarantee:** the Guarantee is not (or is claimed by the Guarantor not to be) in full force and effect; or
- (xiii) **Analogous Events:** any event occurs that under any applicable laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of Conditions 10(i) to 10(xii) (both inclusive).

In this Condition 10:

“**Principal Subsidiary**” means any Subsidiary of the Issuer or the Guarantor:

- (a) whose revenue or (in the case of a Subsidiary which itself has subsidiaries) consolidated revenue, as shown by its latest audited income statement are at least 5 per cent. of the consolidated revenue as shown by the latest published audited consolidated income statement of the Issuer and its Subsidiaries or, as the case may be, the Guarantor and its Subsidiaries including, for the avoidance of doubt, the Issuer or the Guarantor, as the case may be, and its consolidated Subsidiaries' share of profits of Subsidiaries not consolidated and of jointly controlled entities and after adjustments for minority interests; or
- (b) whose gross profit or (in the case of a Subsidiary which itself has subsidiaries) consolidated gross profit, as shown by its latest audited income statement are at least 5 per cent. of the consolidated gross profit as shown by the latest published audited consolidated income statement of the Issuer and its Subsidiaries or, as the case may be, the Guarantor and its Subsidiaries, including, for the avoidance of doubt, the Issuer or the Guarantor, as the case may be, and its consolidated Subsidiaries' share of profits of Subsidiaries not consolidated and of jointly controlled entities and after adjustments for minority interests; or

- (c) whose gross assets or (in the case of a Subsidiary which itself has subsidiaries) consolidated gross assets, as shown by its latest audited balance sheet are at least 5 per cent. of the amount which equals the amount included in the consolidated gross assets as shown by the latest published audited consolidated balance sheet of the Issuer and its Subsidiaries or, as the case may be, the Guarantor and its Subsidiaries, including, for the avoidance of doubt, the investment of the Issuer or the Guarantor, as the case may be, in each Subsidiary whose accounts are not consolidated with the consolidated audited accounts of the Issuer or the Guarantor, as the case may be, and after adjustment for minority interests; or
- (d) to which is transferred the whole or substantially the whole of the assets of a Subsidiary which immediately prior to such transfer was a Principal Subsidiary, provided that the Principal Subsidiary which so transfers its assets shall forthwith upon such transfer cease to be a Principal Subsidiary and the Subsidiary to which the assets are so transferred shall become a Principal Subsidiary until the date on which the first published audited accounts (consolidated, if appropriate), of the Issuer or the Guarantor, as the case may be, prepared as of a date later than such transfer are issued unless such Subsidiary would continue to be a Principal Subsidiary on the basis of such accounts by virtue of the provisions of paragraphs (a), (b) or (c) above of this definition;

provided that, in relation to paragraphs (a), (b) and (c) above of this definition:

- (i) in the case of a corporation or other business entity becoming a Subsidiary after the end of the financial period to which the latest consolidated audited accounts of the Issuer or the Guarantor, as the case may be, relate, the reference to the then latest consolidated audited accounts of the Issuer or the Guarantor, as the case may be, for the purposes of the calculation above shall, until consolidated audited accounts of the Issuer or the Guarantor, as the case may be, for the financial period in which the relevant corporation or other business entity becomes a Subsidiary are published be deemed to be a reference to the then latest consolidated audited accounts of the Issuer or the Guarantor, as the case may be, adjusted to consolidate the latest audited accounts (consolidated in the case of a Subsidiary which itself has Subsidiaries) of such Subsidiary in such accounts;
- (ii) if at any relevant time in relation to the Issuer, the Guarantor or any Subsidiary which itself has Subsidiaries no consolidated accounts are prepared and audited, revenue, gross profit or gross assets of the Issuer, the Guarantor and/or any such Subsidiary shall be determined on the basis of pro forma consolidated accounts prepared for this purpose by the Issuer or the Guarantor, as the case may be;
- (iii) if at any relevant time in relation to any Subsidiary, no accounts are audited, its revenue, gross profit or gross assets (consolidated, if appropriate) shall be determined on the basis of pro forma accounts (consolidated, if appropriate) of the relevant Subsidiary prepared for this purpose by the Issuer or the Guarantor, as the case may be; and
- (iv) if the accounts of any subsidiary (not being a Subsidiary referred to in proviso (i) above) are not consolidated with those of the Issuer or the Guarantor, as the case may be, then the determination of whether or not such subsidiary is a Principal Subsidiary shall be based on a pro forma consolidation of its accounts (consolidated, if appropriate) with the consolidated accounts (determined on the basis of the foregoing) of the Issuer or the Guarantor, as the case may be.

In addition, any Subsidiary which is not itself a Principal Subsidiary shall nevertheless be treated as a Principal Subsidiary if the revenue (or consolidated revenue if the Subsidiary itself has subsidiaries), gross profit (or consolidated gross profit if the Subsidiary itself has subsidiaries) or gross assets (or consolidated gross assets if the Subsidiary itself has subsidiaries) attributable to such Subsidiary when aggregated with the revenue (or consolidated revenue if appropriate), gross profit (or consolidated gross profit if appropriate) or gross assets (or consolidated gross assets if appropriate) attributable to any other Subsidiary which is not itself a Principal Subsidiary and with respect to which any of the events referred to in this Condition 10 has occurred since the issue date of the Notes, exceeds 5 per cent. of the consolidated revenue, consolidated gross profit or consolidated gross assets of the Issuer and its Subsidiaries or, as the case may be, the Guarantor and its Subsidiaries.

11 Meetings of Noteholders, Modification, Waiver and Substitution

- (a) **Meetings of Noteholders:** The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including without limitation the sanctioning by Extraordinary Resolution (as defined in the Trust Deed) of a modification of any of these Conditions or any provisions of the Trust Deed and/or the Agency Agreement. Such a meeting may be convened by the Trustee, the Issuer or the Guarantor and shall be convened by the Trustee upon request in writing from Noteholders holding not less than 10 per cent. in principal amount of the Notes for the time being outstanding and subject to the Trustee being indemnified and/or secured and/or pre-funded to its satisfaction against all costs and expenses. The quorum for any meeting convened to consider an Extraordinary Resolution shall be two or more persons holding or representing more than 50 per cent. in principal amount of the Notes for the time being outstanding, or at any adjourned meeting two or more persons being or representing Noteholders whatever the principal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to amend the dates of maturity or redemption of the Notes, any Instalment Date or any date for payment of interest or Interest Amounts on the Notes, (ii) to reduce or cancel the principal amount of, or any Instalment Amount of, or any premium payable on redemption of, the Notes, (iii) to reduce the rate or rates of interest in respect of the Notes or to vary the method or basis of calculating the rate or rates or amount of interest or the basis for calculating any Interest Amount in respect of the Notes, (iv) if a Minimum Rate of Interest and/or a Maximum Rate of Interest, Instalment Amount or Redemption Amount is shown hereon, to reduce any such Minimum Rate of Interest and/or Maximum Rate of Interest, (v) to vary any method of, or basis for, calculating the Final Redemption Amount, the Early Redemption Amount, the Change of Control Redemption Amount or the Optional Redemption Amount, including the method of calculating the Amortised Face Amount, (vi) to vary the currency or currencies of payment or denomination of the Notes, (vii) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass the Extraordinary Resolution, or (viii) to modify or cancel the Guarantee, in which case the necessary quorum shall be two or more persons holding or representing not less than 75 per cent., or at any adjourned meeting not less than 25 per cent., in principal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed) and on all Couponholders.

The Trust Deed provides that a resolution (A) in writing signed by or on behalf of the holders of not less than 90 per cent. in principal amount of the Notes for the time being outstanding, or (B) passed by Electronic Consent (as defined in the Trust Deed) shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

These Conditions may be amended, modified or varied in relation to any Series of Notes by the terms of the relevant Pricing Supplement in relation to such Series.

- (b) **Modification and waiver of the Trust Deed:** The Trustee may agree, without the consent of the Noteholders or Couponholders, to (i) any modification of any of the provisions of the Trust Deed, the Agency Agreement and/or the Conditions that is in the opinion of the Trustee of a formal, minor or technical nature or is made to correct a manifest error or to comply with any mandatory provision of applicable law or regulation, and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Trust Deed, the Agency Agreement and/or these Conditions that is in the opinion of the Trustee not materially prejudicial to the interests of the Noteholders. Any such modification, authorisation or waiver shall be binding on the Noteholders and the Couponholders and, unless the Trustee otherwise agrees, such modification, authorisation or waiver shall be notified by the Issuer to the Noteholders as soon as practicable.
- (c) **Substitution:** The Trust Deed contains provisions permitting the Trustee to agree, subject to such amendment of the Trust Deed and such other conditions as the Trustee may require, but without the consent of the Noteholders or the Couponholders, to: (i) the substitution of the Issuer's successor in business or any Subsidiary of the Issuer or its successor in business or of the Guarantor or its successor in business or any Subsidiary of the Guarantor or its successor in business in place of the Issuer, or of any previous substituted company, as principal debtor under the Trust Deed and the Notes, and (ii) the substitution of the Guarantor's successor in business or any Subsidiary of the Guarantor or its successor in business in place of the Guarantor, or of any previous substituted company, as guarantor under the Trust Deed and the Notes. In the case of such a substitution, the Trustee may agree, without the consent of the Noteholders or the Couponholders, to a change of the law governing the Notes, the Receipts, the Coupons, the Talons and/or the Trust Deed provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Noteholders.
- (d) **Entitlement of the Trustee:** In connection with the exercise of its functions, rights, powers and discretions (including but not limited to those referred to in this Condition 11), the Trustee shall have regard to the interests of the Noteholders as a class and shall not have regard to the consequences of such exercise for individual Noteholders or Couponholders and the Trustee shall not be entitled to require, nor shall any Noteholder or Couponholder be entitled to claim, from the Issuer, the Guarantor or the Trustee any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders or Couponholders.

12 Enforcement

At any time after the Notes become due and payable, the Trustee may, at its discretion and without further notice, take such steps and/or actions and/or institute such proceedings against the Issuer and/or the Guarantor as it may think fit to enforce the terms of the Trust Deed, the Notes, the Receipts and the Coupons, but it need not take any such steps, actions or proceedings unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Noteholders holding at least 25 per cent. in principal amount of the Notes outstanding, and (b) it shall have been indemnified and/or secured and/or pre-funded to its satisfaction. No Noteholder, Receiptholder or Couponholder may proceed directly against the Issuer and/or the Guarantor unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

13 Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including without limitation provisions relieving it from taking and/or instituting any steps, actions and/or proceedings to enforce payment unless first indemnified and/or secured and/or prefunded to its satisfaction. The Trustee is entitled to enter into business transactions with the Issuer, the Guarantor, any Subsidiary of the Issuer or the Guarantor and any other entity related (directly or indirectly) to the Issuer or the Guarantor without accounting for any profit.

The Trustee may rely without liability to Noteholders or Couponholders or any other person on any report, confirmation or certificate or any opinion or advice of any accountants, legal counsel, financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or any other person or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, confirmation, certificate, opinion or advice and, in such event, such report, confirmation, certificate, opinion or advice shall be binding on the Issuer, the Guarantor and the Noteholders.

Whenever the Trustee is required or entitled by the terms of the Trust Deed, the Agency Agreement or these Conditions to exercise any discretion or power, take any action, make any decision or give any direction, the Trustee is entitled, prior to exercising any such discretion or power, taking any such action, making any such decision or giving any such direction, to seek directions from the Noteholders by way of Extraordinary Resolution, and the Trustee shall not be responsible for any loss or liability incurred by the Issuer, the Guarantor, the Noteholders, the Couponholders or any other person as a result of any delay in it exercising such discretion or power, taking such action, making such decision or giving such direction as a result of seeking such direction from the Noteholders or in the event that no direction is given to the Trustee by the Noteholders.

None of the Trustee or any of the Agents shall be responsible for the performance by the Issuer or the Guarantor or any other person appointed by the Issuer or the Guarantor in relation to the Notes of the duties and obligations on their part expressed in respect of the same and, unless it has written notice from the Issuer or the Guarantor to the contrary, the Trustee and each Agent shall be entitled to assume that the same are being duly performed. None of the Trustee or any Agent shall be liable to any Noteholder, the Issuer, the Guarantor or any other person for any action taken by the Trustee or such Agent in accordance with the instructions of the Noteholders. The Trustee shall be entitled to rely on any direction, request or resolution of Noteholders given by Noteholders holding the requisite principal amount of Notes outstanding or passed at a meeting of Noteholders convened and held in accordance with the Trust Deed.

Neither the Trustee nor any of the Agents shall have any obligation to monitor compliance with the provisions of the Trust Deed, the Agency Agreement or these Conditions or whether an Event of Default or a Potential Event of Default has occurred, and shall not be liable to the Issuer, the Guarantor, the Noteholders or any other person for not doing so.

Each Noteholder shall be solely responsible for making and continuing to make its own independent appraisal and investigation into the financial condition, creditworthiness, condition, affairs, status and nature of the Issuer and/or the Guarantor, and the Trustee shall not at any time have any responsibility for the same and each Noteholder shall not rely on the Trustee in respect thereof.

14 Replacement of Notes, Certificates, Receipts, Coupons and Talons

If a Note, Certificate, Receipt, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to the provisions of the Agency Agreement, applicable laws, regulations and stock exchange or other relevant authority regulations, at the specified office of the Issuing and Paying Agent (in the case of Bearer Notes, Receipts, Coupons or Talons) and of the Registrar (in the case of Certificates) or such other Paying Agent or Transfer Agent, as the case may be, as may from time to time be designated by the Issuer for the purpose and notice of whose designation is given to Noteholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Note, Certificate, Receipt, Coupon or Talon is subsequently presented for payment or, as the case may be, for exchange for further Coupons, there shall be paid to the Issuer on demand the amount payable by the Issuer in respect of such Notes, Certificates, Receipts, Coupons or further Coupons) and otherwise as the Issuer may require. Mutilated or defaced Notes, Certificates, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

15 Further Issues

The Issuer may from time to time without the consent of the Noteholders or Couponholders create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the issue date, the first payment of interest on them and, if applicable, the deadline for submission of the NDRC Post-issue Filing) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Notes) or upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the Notes include (unless the context requires otherwise) any other notes issued pursuant to this Condition 15 and forming a single series with the Notes. Any further notes forming a single series with the outstanding securities of any series (including the Notes) constituted by the Trust Deed or any deed supplemental to it shall, and any other notes may (with the consent of the Trustee), be constituted by the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Noteholders and the holders of notes of other series where the Trustee so decides.

16 Notices

Notices required to be given to the holders of Registered Notes pursuant to these Conditions shall be mailed to them at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing. Notices required to be given to the holders of Bearer Notes pursuant to these Conditions shall be valid if published in a daily newspaper of general circulation in Hong Kong (which is expected to be the *South China Morning Post*). If any such publication is not practicable, notice shall be validly given if published in another leading daily English language newspaper with general circulation in Asia. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made, as provided above.

Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the holders of Bearer Notes in accordance with this Condition 16.

So long as the Notes are represented by a Global Note or a Global Certificate and such Global Note or Global Certificate is held by or on behalf of (i) Euroclear or Clearstream, or any other clearing system (except as provided in (ii) below), notices to the holders of Notes of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions; or (ii) the CMU, notices to the holders of Notes of that Series may be given (x) via the CMU Corporate Action Platform to the CMU Members shown in the records of the CMU as having interests in the relevant Global Note or Global Certificate or (y) by delivery to the persons shown in a CMU Instrument Position Report (as defined in the Trust Deed) issued by the Hong Kong Monetary Authority as having interests in the relevant Global Note or Global Certificate on the business day preceding the date of dispatch of such notice.

17 Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

18 Governing Law and Jurisdiction

- (a) **Governing Law:** The Trust Deed, the Notes, the Receipts, the Coupons and the Talons and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.

- (b) **Jurisdiction:** The Courts of England are to have jurisdiction to settle any disputes that may arise out of or in connection with any Notes, Receipts, Coupons or Talons, the Guarantee or the Trust Deed and accordingly any legal action or proceedings arising out of or in connection with any Notes, Receipts, Coupons or Talons, the Guarantee or the Trust Deed (“**Proceedings**”) may be brought in such courts. Each of the Issuer and the Guarantor has in the Trust Deed irrevocably submitted to the jurisdiction of such courts.

- (c) **Service of Process:** Each of the Issuer and the Guarantor has in the Trust Deed irrevocably appointed an agent in England to receive, for it and on its behalf, service of process in any Proceedings in England.

CAPITALISATION OF THE COMPANY

As at 30 June 2020, we had 15,482,280,438 ordinary shares.

The following table sets forth the consolidated capitalisation and indebtedness of the Group as at 30 June 2020 on an actual basis. The following table should be read in conjunction with our unaudited but reviewed condensed consolidated interim financial statements for the six months ended 30 June 2020 included elsewhere in this Offering Circular.

	As at 30 June 2020	
	RMB'000	US\$'000 ⁽¹⁾
Bank borrowings and notes		
Denominated in RMB.....	51,415,294	7,277,363
Denominated in HKD.....	8,009,164	1,133,624
Denominated in USD	12,002,005	1,698,774
Total bank borrowings and notes	71,426,463	10,109,760
Bank overdrafts.....	44	6
Total debts	71,426,507	10,109,766
Lease liabilities.....	665,724	94,227
Less: Cash and cash equivalents.....	(21,900,590)	(3,099,827)
Net borrowings	50,191,641	7,104,166
Total equity.....	57,925,847	8,198,871
Total capitalisation ⁽²⁾	108,117,488	15,303,037

Notes:

- (1) Calculated at the exchange rate of RMB7.0651 to US\$1.00 as at 30 June 2020.
- (2) Total capitalisation represents the sum of net borrowings and total equity.

Since 30 June 2020, there has been no material change in the consolidated capitalisation of the Group.

THE ISSUER

Formation

The Issuer, Westwood Group Holdings Limited, is a limited liability company incorporated in Hong Kong on 5 February 2010. Its registered office is 25/F., Yue Xiu Building, 160 Lockhart Road, Wanchai, Hong Kong. The Issuer is an indirect wholly-owned subsidiary of the Guarantor.

Business Activity

As at the date of this Offering Circular, the Issuer does not have any subsidiaries. The Issuer has no material assets and liabilities save for the US\$3,000,000,000 guaranteed medium term note programme established in April 2018 (the “**2018 Programme**”) and the Notes issued thereunder. As at the date of this Offering Circular, the Issuer has not engaged, since its incorporation, in any material business activities whatsoever other than in connection with the 2018 Programme and the Notes issued thereunder. The Issuer may from time to time engage in other financial activities (such activities shall, for the avoidance of doubt, include but shall not be limited to: (i) the offering, sale or issuance of the Notes and the Coupons under the Programme; (ii) the activities directly related to the establishment and updates of the Programme and the establishment and/or maintenance of the Issuer’s corporate existence; and (iii) obtaining loans and/or other financing from banks and/or other financial institutions).

Directors

The directors of the Issuer as at the date of this Offering Circular are CHEN Jing, WEI Kai and LIU Yan. None of the three directors hold any shares or options to acquire shares of the Issuer. The company secretary of the Issuer is YU Tat Fung. The Issuer does not have any other officer or employee as at the date of this Offering Circular.

Share Capital

The share capital of the Issuer is HK\$10,000.00 divided into 10,000 shares of HK\$1.00 each. As at the date of this Offering Circular, one share has been issued and credited as fully paid. None of the equity securities of the Issuer are listed or dealt in on any stock exchange and no listing or permission to deal in such securities is being or is proposed to be sought as at the date of this Offering Circular.

Financial Statements

The Issuer is a public company (as defined in the Companies Ordinance (Cap. 622) of Hong Kong (the “**Companies Ordinance**”)) and publishes its annual audited financial statements in accordance with the requirement of the Companies Ordinance.

BUSINESS

Overview

We are one of the leading property developers in the PRC, principally engaged in the development, sale, management and long-term investment of residential and commercial properties. Our operations are primarily conducted in the PRC and Hong Kong. We have been expanding our land bank in the Greater Bay Area, Yangtze River Delta, Central China Region and Bohai Rim, which includes Guangdong, Shandong, Liaoning, Hubei, Zhejiang and Jiangsu Provinces, as well as in Hainan and Hong Kong, as at the date of this Offering Circular. We have accumulated more than 30 years of experience in the industry, and developed strong capability in our integrated property business. In particular, the success of our commercial projects located in the central business district and other prime business centres in major cities of the PRC (such as Guangzhou IFC, which is the world's 23rd tallest skyscraper according to the database of the Council on Tall Buildings and Urban Habitat) and our representative residential projects reflect our strong market position.

GZ Yuexiu, our parent company and a controlling shareholder of the Company, is a 100 per cent. state-owned enterprise under the supervision of the State-owned Assets Supervision And Administration Commission of Guangzhou Municipal Government (“GZ SASAC”). We continue to receive strong support from GZ Yuexiu, which provides financial support for our business operations, and we are invited to participate in favourable investment opportunities offered by, and receive other assistance on property industry trends and regulatory changes from, the Guangzhou Municipal People's Government.

We benefit from our unique interactive business model of “Property — REIT”. We are the first PRC property developer with a HKSE-listed REIT platform. This feature enables us to allocate capital efficiently from completed commercial properties by injecting property assets into Yuexiu REIT at the appropriate time, subject to relevant approvals. The cash proceeds from such injections, as well as the periodic distribution payments we receive from Yuexiu REIT, enable us to generate stable cash flows and enhance recurring revenues, which strengthens our operations and enable us to expand our property portfolio. We held 38.37 per cent. of the issued units of Yuexiu REIT as at 30 June 2020. As at 30 June 2020, Yuexiu REIT's property portfolio comprised of eight commercial properties with an aggregate area of ownership of approximately 973,001.4 sq.m and had an independent appraisal value of RMB34,599 million.

We were incorporated in Hong Kong on 16 June 1992. Our shares have been listed on the Main Board of the Hong Kong Stock Exchange (Stock Code: 00123) since December 1992 and on the Singapore Exchange Limited (“SGX-ST”) (SGX-ST: Yuexiu Prop 2k) since October 1996. Since November 2010, we have been a constituent stock of the Morgan Stanley Capital International China index.

As at 30 June 2020, we held:

- a land bank of approximately 23.63 million sq.m. with properties planned for future development and under development in 19 cities including Guangzhou, Shenzhen, Zhongshan, Jiangmen, Foshan, Wuhan, Xiangyang, Changsha, Zhengzhou, Hangzhou, Suzhou, Jiaxing, Shenyang, Qingdao, Yantai, Ji'nan, Chengdu, Haikou and Hong Kong;
- 70 projects under development located in Guangzhou, Shenzhen, Zhongshan, Jiangmen, Foshan, Wuhan, Xiangyang, Changsha, Zhengzhou, Hangzhou, Suzhou, Jiaxing, Shenyang, Qingdao, Yantai, Ji'nan, Chengdu; and
- investment properties under lease of approximately 452,300 sq.m. in total.

For the year ended 31 December 2019, we had contracted sales (including contracted sales by joint venture projects) of approximately RMB72.11 billion with an aggregate contracted sales GFA of approximately 3.49 million sq.m., representing a growth of 24.8 per cent. and 26.1 per cent., respectively as compared to 2018. For the six months ended 30 June 2020, we had an aggregate contracted sales of GFA of approximately 1.52 million sq.m., achieving approximately RMB37.56 billion in contracted sales, representing a growth of 1.8 per cent., as compared to the six months ended 30 June 2019. For the ten months ended 31 October 2020, we had contracted sales of GFA of approximately 2.94 million sq.m., achieving approximately RMB73.34 billion in contracted sales, representing a growth of 40 per cent., as compared to the ten months ended 31 October 2019.

For the years ended 31 December 2018 and 2019 and the six months ended 30 June 2020, our revenue was RMB26,433.4 million, RMB38,399.1 million and RMB23,713.8 million, respectively. Our profit attributable to equity holders of the Company from continuing operations during the respective periods was RMB2,727.9 million, RMB3,483.4 million and RMB1,994.7 million, respectively.

History and Corporate Development

We strategically position us to be a leader in both residential and commercial property market in China and a large, integrated property developer guided by the principles of “excellent quality” and “refined management”. We were awarded as outstanding enterprises of Greater Bay in 2020, and “Guangdong Trustworthy Enterprise” for 19 consecutive years, “Guangdong Top 10 Developer of Integrity” for 10 consecutive years, “Guangdong Top 20 Developer with Good Credit” for 9 consecutive years. After more than 30 years of development and growth, our Yuexiu brand has enjoyed a reputation as a leading property developer in the PRC and Hong Kong, and is well-known for our high quality property portfolio. We were formerly known as Guangzhou Investment Company Limited and changed our name to Yuexiu Property Company Limited in 2009. We have laid solid foundation for growth during the years of 2015 and 2016 by optimizing operation structure (region and products, etc.), upgrading “Property — REIT” interactive business model to make it a unique competitive advantage, refining management and internal control, improving operating efficiency on an ongoing basis, standardising project development and operational capability for replication and enhancing profitability and asset turnover. We have continued to accelerate our growth through dual growth engines of residential and commercial development from the year of 2017 and onwards by consolidating our advantages of unique land resource acquisition platform, enhancing brand premium and product competitiveness, speeding up the growth of business in the Greater Bay Area through in-depth operation in existing cities and expansion into new cities in various regions in China. In 2018 and 2019, we adhered to the annual work theme of “operation-driven quality improvement, innovation-driven development”. By improving the management ability and innovating the development model, we built the core ability of the business development and realised sustained and stable business growth. In the first half of 2020, we further adhered to the annual work theme of “improving efficiency by optimising structure and driving development by operation” to proactively respond to market changes and neutralize the pandemic’s adverse impacts by continually improving operations and management capacity, and achieve a solid increase in operating results. We will continue to focus on satisfying rigid and upgrading demand for residential properties, and development and operation of high-end commercial properties in China.

The table below sets forth key milestones in our business history.

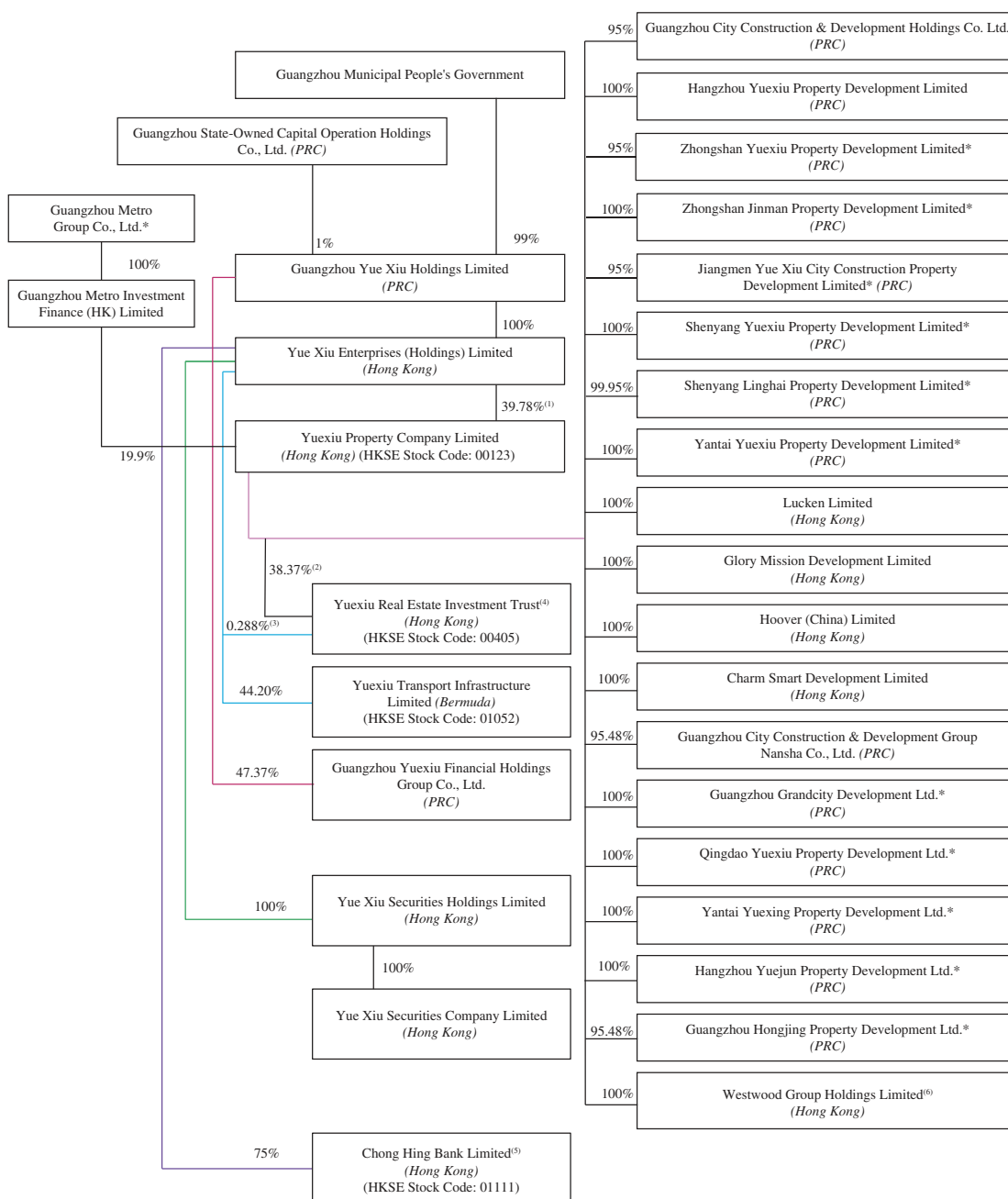
Time	Event
1992	Listed on the Main Board of the Hong Kong Stock Exchange
2002	Acquired 95 per cent. interest of Guangzhou City Construction & Development Group
2005	Spun off four commercial properties including White Horse Building, Fortune Plaza, City Development Building and Victory Plaza to establish Yuexiu REIT for a new listing of Yuexiu REIT on the Main Board of the Hong Kong Stock Exchange at the same time
	Acquired the land parcel of Guangzhou IFC, laying the ground for the future interaction with Yuexiu REIT

Time	Event
2008	Injected Neo Metropolis into Yuexiu REIT, pioneering the interactive capital recycling business model of “Property — REIT”
2008-2009	Divested newsprint and toll road operations to streamline our business to focus on property development and investment
December 2009	Acquired a parcel of land in Zhifu, Yantai, marking our first entry into the Bohai Rim
2009	Disposed Yuexiu Transport Infrastructure Limited (HKSE Stock Code: 01052) (“ Yuexiu Transport ”) to focus on property development and investment
October 2010	Issued 2,141,822,374 new shares at the offer price of HK\$1.61 per share by way of an open offer and raised approximately HK\$3.4 billion to optimise the Company’s capital structure
December 2010	<p>Disposed of the supermarket business to China Resources Enterprise Limited, thus realizing our goal of divesting all non-core businesses</p> <p>Acquired a parcel of land in Qiaokou, Wuhan, marking our first entry into the Central China Region</p> <p>Acquired Shenyang Linghai Mingzhu project, with Shenyang being the location of our second project in the Bohai Rim besides the project in Yantai</p> <p>Acquired a parcel of land in Lin’an, Hangzhou, marking our first entry into the Yangtze River Delta Region</p> <p>Achieved annual contracted sales of HK\$10 billion for the first time</p>
October 2012	Completed asset injection of Guangzhou IFC into Yuexiu REIT
January 2013	Established a US\$2,000,000,000 medium term note programme
January 2013	Issued the US\$350,000,000 3.25 per cent. notes due 2018 and the US\$500,000,000 4.50 per cent. notes due 2023 under the medium term note programme
2013	Obtained investment grade credit ratings of Baa3 and BBB- from Moody’s and Fitch respectively
October 2014	Completed rights issue financing of HK\$3,846 million with an over-subscription of 4.19 times
November 2014	Issued the HK\$2,300,000,000 6.10 per cent. Notes due 2029 under the medium term note programme
2015	Brought new management onboard with refined corporate strategy and focus on development in Greater Bay, Yangtze River Delta, and Central China Region
2015	Achieved contracted sales of RMB24.9 billion

Time	Event
May-September 2016	A 95 per cent.-owned subsidiary publicly issued guaranteed interest-bearing bonds in three tranches with an aggregate principal amount of RMB8 billion, and all three tranches are listed on the Shanghai Stock Exchange
2016	Acquired Nansha Phase 10 Land from our parent company, GZ Yuexiu and successfully implemented the effective approach of “incubation by the parent — acquisition by property” to increase land bank
2016	Launched the co-investment scheme at project level and share incentive scheme at company level
2016	Achieved contracted sales of RMB30.3 billion
2017	Sold 67 per cent. equity interest of a commercial property in Qiaokou District of Wuhan to Yuexiu REIT, at a consideration of approximately RMB2.0 billion, representing a gain (before taxation) of approximately RMB0.4 billion
2017	Achieved contracted sales of RMB40.9 billion
2018	Issued USD800 million 3-year and USD400 million 5.5-year offshore corporate bonds with coupon rates of 4.875 per cent. and 5.375 per cent., respectively
2018	Sold Hangzhou Victory Center to Yuexiu REIT, at a consideration of RMB563 million
2018	Entered into a cooperation agreements with Taiwan Rui Guang Healthcare Group, Adef Residences Group (France) and Zhu Jiang Hospital to jointly explore China’s healthcare and elderly care integration market
2018	Achieved contracted sales of RMB57.8 billion
2019	Introduced Guangzhou Metro Group Co., Ltd. (“ Guangzhou Metro ”) as a strategic shareholder of the Company
2020	Acquired interests in two parcels of land in Guangzhou under the cooperation with Guangzhou Metro

Corporate Structure

The chart below illustrates our basic corporate structure as at 30 June 2020. This chart is a summary of our material subsidiaries including the Issuer and does not depict certain operating subsidiaries in Hong Kong and the PRC.



Notes:

- (1) Indirect holding through certain BVI and Hong Kong subsidiaries of Yue Xiu Enterprises (Holdings) Limited (“Yue Xiu”).
- (2) Indirect holding through 2 BVI subsidiaries of Yuexiu Property Company Limited, Dragon Yield Holding Limited and Yuexiu International Investment Limited.
- (3) Direct holding of 0.001 per cent. and indirect holding of 0.287 per cent. through BVI and Hong Kong subsidiaries of Yue Xiu.
- (4) An associated entity of the Company.
- (5) Indirect holding through Yuexiu Financial Holdings Limited.

⁽⁶⁾ Indirect holding through Guangzhou Construction & Development Holdings (China) Limited.

* Entities marked with an asterisk denote the unofficial English translation of the Chinese name of the entity.

Recent Development

Acquisition of 67 per cent. Equity Interest in Guangzhou Metro Environmental Engineering Co., Ltd. (“GZMEE”) and 67 per cent. Indirect Effective Equity Interest in Guangzhou Metro Property Management Co., Ltd. (“GZMPM”).

On 23 November 2020, Guangzhou Yuexiu Property Development., Ltd. (廣州越秀物業發展有限公司), an indirect wholly-owned subsidiary of the Company, entered into an equity transfer agreement (the “**Equity Transfer Agreement**”) with Guangzhou Metro for the acquisition of 67 per cent. of equity interest in GZMEE and 67 per cent. of the indirect effective equity interest in GZMPM (indirectly through GZMEE’s shareholding in GZMPM) at a total consideration of RMB281.74 million (including tax payable of RMB5.0 million). After the completion of the Equity Transfer Agreement, GZMEE and GZMPM will become the subsidiaries of the Company and continue to provide property management and other ancillary services to Guangzhou Metro and its associates.

Possible Spin-off and Separate Listing of the Property Management Business of the Group.

The Company is considering a possible spin-off (the “**Possible Spin-off**”) and separate listing of the property management business of the Group on the Main Board of the Hong Kong Stock Exchange. The details of the Possible Spin-off have yet to be determined as of the date of the Offering Circular. Further, Guangzhou Metro is considering possible participation in investment opportunities in the Possible Spin-off.

Our Competitive Strengths

We believe we are well-positioned to take advantage of the continued development of the property market in the PRC and Hong Kong by leveraging the following competitive strengths:

Robust Parent Support and Strong State-owned Enterprise Background.

The Guangzhou Municipal People’s Government and GZ Yuexiu have provided strong support to help grow our core property development business consistently. Our property business, together with the transportation and infrastructure business undertaken by Yuexiu Transport and the financial and capital markets operations undertaken by Yue Xiu Securities and others, have been identified as the three core businesses of GZ Yuexiu. As the leading revenue contributor to GZ Yuexiu, we have received support from our parent company in terms of corporate governance, industrial resources and financial resources, which have enabled us to consistently build our business, bolster our land acquisitions, expand our property portfolio and enjoy credit facilities at generally favourable interest rates.

In addition, as GZ Yuexiu is 100 per cent. held by the Guangzhou Municipal People’s Government and is under the direct supervision of GZ SASAC, we benefit from the stature of, and support from, the Guangzhou Municipal People’s Government. For instance, we are able to timely coordinate and respond to government authorities to facilitate various review and approval processes, efficiently dispose non-core assets to GZ Yuexiu (e.g., the divestments of newsprint and toll road operations in 2008 and the disposal of a 45.3 per cent. interest in Yuexiu Transport in 2009), strategically form partnership with investment fund majority-owned by GZ Yuexiu so as to ease initial capital pressure and gain upside from property market while maintaining healthy gearing ratio (e.g., under the partnership we are able to contribute a small amount to a joint venture at the time of a land purchase with a call option to buy back project stakes after 12 to 24 months) as well as competitively capitalise on investment opportunities of land acquisitions in prime locations and urban redevelopment in Guangzhou (e.g., we acquired the qualification for the redevelopment of two old villages in Guangzhou, namely Lirendong village and Dongliu village, in 2019). In 2019, we successfully introduced Guangzhou Metro, a wholly-owned subsidiary of Guangzhou Municipal People’s Government, as a strategic shareholder, being the second largest shareholder and holding approximately 19.9 per cent. of our shares as of the date of this Offering Circular. We expect to create a synergy under the cooperation with Guangzhou Metro to further implement our “Railway + Property” strategy and obtain high quality projects in Guangzhou. In 2019 and 2020, we acquired five projects in Guangzhou with cooperation with Guangzhou Metro. In addition, as one of the largest

state-owned companies in Guangzhou, we have developed the necessary market profile and substantial bargaining power that have enabled us to develop closer relationships with domestic and international banks for preferential onshore and offshore financings with reduced interest costs. State-owned enterprise background and close connection with the government benefit our Guangzhou-centered development business. We believe we will continue to leverage on, and benefit from, the strong support of GZ Yuexiu and the Guangzhou Municipal People's Government to foster our long-term and sustainable development.

Leading Position in Guangzhou with Diversified Regional Footprint Across China with Significant Exposure to the Greater Bay Area.

We have accumulated more than 30 years' experience as a dominant developer in Guangzhou with various landmark commercial and residential properties located in prime locations. We achieved total contracted sales of RMB37.56 billion, among which RMB20.25 billion, i.e. 59.6 per cent. was attributable to contracted sales in the Greater Bay Area, the total contracted sales GFA was 1.5 million sq.m. and average selling price was RMB24,700/sq.m. in Guangzhou for the six months ended 30 June 2020. In addition, as at 30 June 2020, we had a land bank of 6.3 million sq.m. in Guangzhou, taking up approximately 38.9 per cent. of our total land bank. In addition, we successfully secured five projects in Guangzhou in 2019 and 2020 after the cooperation with Guangzhou Metro as well as obtained qualification for the redevelopment of two old villages with total GFA of 3.74 million sq.m. after the redevelopment in Guangzhou in 2019. According to the "2019 Sale Rankings of Commodity Housings among Guangzhou's Real Estate Enterprises" (《2019年度廣州房企銷售金額排行榜》) realised by E-House Enterprise Group CRIC, we ranked the first in Guangzhou with an equity amount of sales RMB21.57 billion. We believe we will continue to tap into, and benefit from, the advantages derived from our deep-rootedness in Guangzhou.

On top of our dominant position in Guangzhou, we have also developed a diversified regional footprint across China with significant exposure to the Greater Bay Area. Benefitting from the strategic opportunity provided after the promulgation of *the Outline Development Plan of Guangdong-Hong Kong-Macao Greater Bay Area* by the State Council of the PRC, we strengthened our strategic layout in the Greater Bay Area. We completed our first land acquisition in Shenzhen, the central city of the Greater Bay Area in 2019. In addition to Shenzhen, we also acquired 13 high-quality land parcels with a total GFA of approximately 4.80 million sq.m. in three cities in the Greater Bay Area in 2019. As of the 30 June 2020, we have a land bank of approximately 12.73 million sq.m. in six cities in the Greater Bay Area, representing approximately 53.9 per cent. of our total land bank. For the year ended 31 December 2019 and the six months ended 30 June 2020, contracted sales from the Greater Bay Area accounted for 58.5 per cent. and 59.6 per cent., respectively, of our total contracted sales in the respective period. In 2019, we ranked as the 5th for property companies in terms of comprehensive strength in Guangdong-Hong Kong-Macao Greater Bay Area and Top 10 Best Real Estate Companies in Guangdong-Hong Kong-Macao Greater Bay Area by China Index Academy Limited. In addition to the Greater Bay Area, as of the date of this Offering Circular, we had set our footprint in four regions across China i.e. Eastern China Region, Central China Region, Northern China Region and Western China Region. In 2019, we entered into Chengdu market for the first time and generated sales in the same year, which marks the milestone for our implementation of "1+4" nationwide strategic layout. Our diversified regional expansion layout in the Greater Bay Area and the four regions across China also benefitted us in the form of strong and counter-cyclical sales performance, stable revenue contribution from property development, improving gross/core profit margin and decreasing selling, general and administrative expenses of contracted sales. During the years ended 31 December 2018 and 2019 and the six months ended 30 June 2020, we recorded revenue of RMB26,433.4 million, RMB38,339.1 million and RMB23,713.9 million, respectively, and the revenue contribution from property development segment amounted to RMB24,290.3 million, RMB34,453.7 million and RMB22,541.8 million, respectively. Our gross profit margin for the years ended 31 December 2018 and 2019 and the six months ended 30 June 2020 was 31.8 per cent., 34.2 per cent. and 28.0 per cent., respectively. Our core profit margin for the years ended 31 December 2018 and 2019 and the six months ended 30 June 2020 was 10.6 per cent., 9.2 per cent. and 8.4 per cent., respectively.

We intend to expand and diversify our land bank further into the four regions in China as well as deepen our penetration in the Greater Bay Area relying upon our operational capabilities as well as fully utilise our resources so as to further improve our land acquisition capabilities. In addition, in pursuant of our business strategy of "Railway + Property", the introduction of Guangzhou Metro as a strategic shareholder through the various transactions and the business synergies created between Guangzhou Metro and ourselves would place us in a good position to acquire high quality land resources. Therefore, we believe we will achieve better property development and sales performance in the future.

Unique “Property — REIT” Interactive Business Model.

We have been focusing on the balanced development of both residential and commercial operations, as well as utilising our unique interactive business model of “Property — REIT”. We are the first PRC property developer with a HKSE-listed REIT platform, namely Yuexiu REIT, which has been listed on the Main Board of the Hong Kong Stock Exchange since December 2005. As at 30 June 2020, we had approximately 1.5 million sq.m. of high quality commercial land bank. Our continuing interaction with Yuexiu REIT, including the development and incubation of high quality commercial properties for injection into Yuexiu REIT, allows us to efficiently allocate capital invested in completed commercial properties to avoid large amount of sedimentary funds of commercial properties for reinforcing our core residential and commercial property development and benefit from recurring cash flows, rental growth and capital appreciation. It also forms an integral part of our sustainable business paradigm of “Development, Operation and Securitisation” for our growing commercial property portfolio.

In 2017, we transferred 67 per cent. equity interest in one of our commercial properties in Wuhan to Yuexiu REIT at a consideration of approximately RMB2.0 billion, representing a gain (before taxation) of approximately RMB0.4 billion. Additionally on 28 December 2018, we transferred the Hangzhou Victory Center to Yuexiu REIT at a total consideration of RMB563 million, further implementing the development model of “development + operations + securitisation”. As at 31 December 2019, we indirectly held approximately 38.1 per cent. of Yuexiu REIT, which had 0.97 million sq.m. of commercial properties for lease and achieved revenue of approximately RMB2.06 billion during the year ended 31 December 2019, representing a year-on-year increase of 1.3 per cent. As at 30 June 2020, we indirectly held approximately 38.4 per cent. of Yuexiu REIT, which had 0.97 million sq.m. of commercial properties and achieved revenue of approximately RMB0.83 billion for the six months ended 30 June 2020, representing a period-to-period decrease of 17 per cent.

We intend to continue building on this unique platform by developing a strong pipeline of commercial property projects that we believe will develop our portfolio and may also strengthen Yuexiu REIT. Subject to the relevant regulatory, shareholder and unitholder approvals, as well as market conditions, we expect to inject these assets into Yuexiu REIT over time to maximise the value of completed properties, achieve efficient recycling of capital and secure desired return on capital. As a significant and the single largest unitholder of Yuexiu REIT, we expect to continue enjoying the benefits of the long-term growth potential of its commercial property portfolio as well as stable distribution income, which will further strengthen our business operations.

Strong Commercial Property Development and Operational Capabilities with Stable Recurring Cash Flow.

We have strong development and operational capabilities with respect to commercial property development, which allow us to remain competitive and to grow our business, as we offer solid high quality, iconic and landmark commercial properties to our customers. As at 30 June 2020, we held commercial properties with a total GFA of 1,538,300 sq.m. including 697,600 sq.m. properties for lease, 552,700 sq.m. properties under development and 288,000 sq.m. for future development. We have actively expanded our leasing business and as at the end of 2019, we directly owned approximately 0.70 million sq.m. of investment properties for lease. Our major leasing projects include Yuexiu Financial Tower with a GFA of approximately 211,500 sq.m., Nansha Sheraton Hotel with a GFA of approximately 54,600 sq.m., Xiangkang Commercial Plaza with a GFA of approximately 31,800 sq.m., the commercial portions of Hangzhou Starry City with a GFA of approximately 120,600 sq.m. and other Guangzhou Commercials with a GFA of approximately 205,600 sq.m. as at 30 June 2020. Due to their prime locations, accurate market positioning and refined management, our commercial properties have been steadily increasing in value. We believe our strong commercial property portfolio has growth potential and will enable us to continue benefiting from our unique platform and interaction with Yuexiu REIT.

As at 30 June 2020, in addition to the commercial property portfolio held by Yuexiu REIT, we owned investment properties under lease of approximately 452,300 sq.m. and recorded rental revenue of approximately RMB291 million for the six months ended 30 June 2020, representing a decrease of 13.6 per cent. period over period, including, among others, Yuexiu Financial Tower, Xiangkang Commercial Plaza, Nansha Sheraton Hotel. As at 30 June 2020, we had three key commercial properties under development, namely, Guangzhou International Commerce Center, the commercial portions of Wuhan International Financial City and Nansha International Finance Center. Guangzhou International Commerce Center comprises Grade A office, hotel, service apartment and retail shopping mall with a total GFA of approximately 229,400 sq.m., and is positioned to become one of the architectural landmarks in Guangzhou. Nansha International Finance Center has a total GFA of approximately 81,500 sq.m., comprising high-end office, hotel and service apartment. The commercial portions of Wuhan International Financial City has a total GFA of approximately 241,800 sq.m., comprising high-end office, hotel and retail shopping mall. As at 30 June 2020, we also held three properties for future development with a total GFA of approximately 0.3 million sq.m., including the commercial portions of Nansha Southern Le Sand with a GFA of approximately 200,000 sq.m., and the commercial portions of Hangzhou Starry City with a GFA of approximately 88,000 sq.m..

Also, through our “Residential + Commercial” business model and more than 30 years of property development experience in Guangzhou, we have developed strong integrated property development and operating expertise and capabilities that contribute to our growing business and financial performance, and further deepened our entire value chain of “Development, Operation and Securitisation”. By leveraging on our experience, we expect to continue developing landmark properties which we believe will greatly contribute to the continuing transformation and development of Guangzhou.

As at 30 June 2020, we directly owned approximately 452,300 sq.m. of investment properties under lease, and received rental income of approximately RMB0.3 billion for the six months ended 30 June 2020, representing a period-to-period decrease of 13.6 per cent. compared with that for the six months ended 30 June 2019. Despite the impact brought by the COVID-19 pandemic, our Yuexiu Financial Tower located in Guangzhou recorded a high occupancy rate of 95 per cent. Due to their prime locations, accurate market positioning and refined management, our commercial properties have been steadily increasing in value. We believe our strong commercial property portfolio has growth potential and will enable us to continue benefiting from our unique platform and interaction with Yuexiu REIT.

For the years ended 31 December 2018 and 2019 and the six months ended 30 June 2020, the cash distribution of Yuexiu REIT attributable to us amounted to RMB307 million, RMB290 million and RMB122 million, respectively. With distributions from Yuexiu REIT and revenues generated from our commercial properties, as well as property management and other fees that we receive, we believe we have stable recurring cash flows that allow us to continue to grow our business and expand our property portfolio. In addition, we expect that this recurring revenue will support the ongoing servicing of our interest and financing expenses.

To further enhance our operating capabilities, we have strategically implemented a brand management and promotional program in order to build the “Yuexiu” brand name on a nationwide basis. We believe our efforts to promote our brand name have been successful. We have received a number of awards and recognitions from professional magazines and professional committees for our property portfolio and property development operations. In 2019, we were awarded the China Property Awards of Supreme Excellence by China Property Award of Supreme Excellence 2019 as well as Hong Kong Economic Journal. We were also granted the awards of China Real Estate Trend Awards: Top 30 China Most Influential Property Enterprise of 2019 by Boao Real Estate Forum/Guangdian Index Academy as well as China Business Journal.

Prudent Financial Management to Ensure Solid Financial Performance and Capital Structure.

As a gateway to Hong Kong for the Guangzhou Municipal People's Government, we have been listed on the Hong Kong Stock Exchange since 1992 and have accumulated extensive experience in capital and financing operations in both Hong Kong and the PRC. We believe that effective financial management and risk control capabilities are the key to the success of a property developer, due to the capital-intensive nature of the real estate business. We have always adhered to prudent financial management policies emphasizing on funding management and financial risk and foreign exchange risk control including conducting scientific and comprehensive post-project assessment to promote the effectiveness of our investments that have enabled us to maintain a good credit profile and strong balance sheet. We have implemented effective control measures from the commencement to the completion of the projects and we always conduct marketing and project cost control upfront in the process. We continue to maintain a good relationship with commercial banks in the PRC and Hong Kong and benefit from access to diversified funding sources, including bilateral loans, syndicated loans and the debt and equity capital markets. We also intend to explore more funding channels, further optimise the capital structure and lower the funding costs, enhance the ability to protect our resources and enhance our capacity to overcome risks. Through the Yuexiu REIT platform, we are able to enjoy stable dividend income as well as cash flows from the injection of our targeted commercial properties. We constantly monitor our current and expected liquidity requirements and compliance with borrowing covenants to ensure sufficient cash reserves and adequate committed facilities to maintain our healthy and stable short-term and long-term liquidity position so as to adapt to a fast-changing business environment and to support our business development activities. With respect to our investment management, we have implemented effective control measures from the commencement to the completion of our projects, including a real-time monitor system, which enables us to control development costs.

We have always maintained the balance between onshore and offshore financing. For the six months ended 30 June 2020, the Group obtained new borrowings in the amount of approximately RMB11.26 billion, of which onshore bank borrowings amounted to approximately RMB10.0 billion and offshore bank borrowing amounted to approximately RMB1.34 billion. As at 30 June 2020, our total bank borrowings amounted to RMB71.43 billion and our undrawn committed bank facilities amounted to approximately RMB20.50 billion. We also employed a combination of short-term and long-term facilities and kept our net gearing ratio at reasonable levels. As at 30 June 2020, our total borrowings amounted to approximately RMB71.4 billion, of which approximately 15 per cent. will mature within one year, 24 per cent. will mature in one to two years, 57 per cent. will mature in three to five years and the rest 4 per cent. will mature over five years. Our cash and cash equivalents and charged bank deposits amounted to approximately RMB30.2 billion and our net gearing ratio, representing the borrowings net of cash and cash equivalents and charged bank deposits divided by equity, was 71.2 per cent. As at 30 June 2020, our fixed-rate borrowings and borrowings with maturity within one year accounted for approximately 57.1 per cent. and 15 per cent. of the total borrowings, respectively. Due to the optimisation of our capital structure, for the six months ended 30 June 2020, our average borrowings interest rate was 4.71 per cent. per annum, decreased by 0.05 percentage point as compared to 4.76 per cent. per annum for the same period of 2019.

Experienced Management Team and Inspiring Corporate Culture.

We are pioneer among state-owned enterprise developers in applying project-level co-investment scheme and company-level share incentive scheme since 2016, including co-investment by project management teams which helped improve efficiency and control costs as well as share investment scheme which aligned management interest and improved return to shareholders. Our management team has extensive experience in the real estate industry and has been involved in property development or investment activities for an average of over 20 years. Our current management team delivered strong operational performance and efficiencies. In particular, our Chairman, Mr. LIN Zhaoyuan, with a bachelor degree of economics and a master degree of business administration of the Sun Yat-Sen University and the qualification of mechanical engineer, also has relatively extensive work experience in corporate management, sound and efficient management, cost control and corporate restructuring and development,

and is very forward-looking and innovative in corporate operations and management. In addition, our general manager, Mr. LIN Feng, graduated from Guangdong University of Finance & Economics in accounting with a bachelor's degree in economics. Mr. Lin also holds a master's degree in business administration from the University of Western Sydney and the qualification of accountant awarded by the Ministry of Finance of the People's Republic of China. Our management team's experience and in-depth knowledge of our industry and markets enables us to manage our operations efficiently and take advantage of market opportunities.

We have established an inspiring corporate culture within the Company focusing on the principles of responsibility, teamwork and passion. We have actively participated in charitable activities in Guangzhou and other cities where we have business, and encouraged our employees to engage in volunteer social services. In addition, we benefit from good relationships with our employees. We have established a career development plan that suits individual employees. The career plan covers fresh graduates, junior employees and employees at middle and senior levels. Meanwhile, we have built a comprehensive employee development system through various means, such as internal open competition for posts, talent reserve training projects, talent review, engagement survey, the Talent Development Platform.

Our Business Strategies

Our objective is to strengthen our position as one of the leading property developers in the PRC with balanced property development, investment and management capabilities while adhering to the theme of “good products, service, brand and team”. We intend to implement the following business strategies:

Strategically Expand Our Land Bank and Implement the “1+4” National Strategic Layout.

In terms of regional expansion layout, we plan to implement the “1+4” national strategic layout. We will continue to consolidate leading market position in Guangzhou and deepen the penetration in the Greater Bay Area on one hand, and continue to enhance our expansion in four regions across China, i.e. Eastern China Region, Central China Region, Northern China Region and Western China Region, on the other. As at 30 June 2020, our land bank is located in 19 cities in the Greater Bay Area, the Eastern China Region, the Central China Region, the Northern China Region, and Western China Region. We have been prudently expanding our land bank after taking into account various factors such as global and regional economic conditions, land acquisition opportunities, property market development trends and our own financial condition. For the year ended 31 December 2019, we acquired 27 land parcels in 11 cities with a total GFA of approximately 7.71 million sq.m and attributable GFA of approximately 5.21 million sq.m. For the six months ended 30 June 2020, we acquired 5 land parcels located in Guangzhou, Hangzhou and Suzhou with a total GFA of approximately 1.10 million sq.m.. For the six months ended 30 June 2020, in terms of the attributable interest to the Group, the new land acquisition GFA was approximately 854,400 sq.m. As at 30 June 2020, we had a total land bank of approximately 23.6 million sq.m., representing a period-to-period increase of 9.7 per cent. compared with the total land bank as at 30 June 2019. We will continue to focus on high quality development projects and strategically grow our operations nationwide. We will also continue to carefully evaluate and undertake full due diligence on potential new land sites before making any investment decision, while continuing to seek new opportunities for expansion in accordance with our corporate strategy.

We will continue to optimise our regional management and control model for expansion by leveraging on our unique advantages of being able to obtain resources via various means and channels. Specifically, we will adhere to the strategy of “active biddings, prudence on premiums and seeking for cooperation” to seize opportunities of land grant in the open market to increase quality land resources. By taking advantage of our parent company's resources platform, our unique reserve injection model of “incubation by the parent — acquisition by the Group” has become the normality to gain resources. With urban renewal project as a carrier, we will collaborate with the “Guangzhou State-owned Asset Development Alliance” established by us and the “Guangzhou Urban Renewal Fund” with a targeted size of RMB200 billion initiated by our parent company to deepen our participation in the “Railway+

Properties” development and urban renewal projects such as redevelopment of old plants, old towns and old villages. In the first half of 2020, We obtained the qualifications for the redevelopment of two old villages, namely Lirendong village and Dongliu village in Guangzhou, increasing our land bank by 1.63 million sq.m. In addition, we recently introduced Guangzhou Metro as our strategic shareholder to substantiate our business strategy of “Railway + Property”. We believe this cooperation with Guangzhou Metro would place us in a good position despite the current uncertainties in the PRC property market.

By utilising the resources platform of the state-owned enterprises, we will continue to strengthen strategic cooperation with state-owned enterprises to explore quality land resources and further implement the “Residential + Government Projects” model to acquire quality lands at relative low costs. As at 30 June 2020, we acquired three “Residential + Government Projects”, increasing our land bank by 1.07 million sq.m. We will strengthen our cooperation with outstanding peer enterprises so as to actively pursue merger and acquisition transaction opportunities in the secondary market. Following the national strategy of the greater bay area, we will seize the opportunities of strategic development of the greater bay area to maintain and further strengthen our dominant position in market.

We will focus on the development of residential and commercial properties in the Greater Bay Area and the four regions in China which we believe have developed transportation infrastructure, significant market capacity, robust real estate demand and economic growth potential, and will strengthen and optimise our business of developing and operating residential and commercial projects and increase the operation capability of commercial properties. We also plan to invest in high asset-turnover residential projects.

Further Promote the Implementation of the “Residential + Commercial” Model and Improve Commercial Property Operation Capabilities to Enhance Interaction Between Yuexiu Property and Yuexiu REIT.

The implementation of the “Residential + Commercial” model is one of our major development strategies. We will continue to enhance our operation and management capabilities with respect to commercial properties to increase commercial rental income and enhance the value of commercial properties, making commercial properties an important “stabiliser” for our business. Meanwhile, we will continue to deepen our whole industry chain business model of “Development, Operation and Securitisation”, enhance interaction with Yuexiu REIT and further explore the strategy of asset securitisation, so as to form an integrated operation model of “Investing — Financing — Building — Operating — Exiting.”

As the sponsor and single largest unitholder of Yuexiu REIT, our arrangement allows us to take advantage of natural synergies between the two entities, and maintain a sustainable balance between our growth and stability through the interaction between our property development activities and Yuexiu REIT’s property investment activities. We believe that this is an interactive and capital efficient model, allowing the Company to focus on property development while Yuexiu REIT acts as the designated property-investing and operating platform that holds completed investment properties. We will continue to leverage on the advantages and synergies offered by our unique platform to more effectively deploy capital to develop premium commercial projects and further improve our commercial operation capacity.

In addition to Guangzhou IFC, we have also developed a number of premium commercial projects, such as Guangzhou Yuexiu Financial Tower, Nansha Sheraton Hotel, the commercial portions of Nanhai Starry Winking, Hangzhou Victory Centre and the commercial portions of Hangzhou Starry City. We intend to continue leveraging on our industry experience in the PRC and Hong Kong and our funding capabilities in the capital markets to continue to develop new projects to bolster our property portfolio, of which certain properties may be injected into Yuexiu REIT, in a manner consistent with regulatory, shareholder and unitholder approval requirements, including that such transactions are on normal commercial terms at arm’s length and are fair and reasonable and in the interests of shareholders and unitholders as a whole.

Actively Develop and Expand New Businesses to Achieve Further Diversification of Our Operations.

We will vigorously explore and develop new business types and models to create new growth engines for our future business development. Furthermore, we will work in depth with local governments and state-owned enterprises to tap into the latter's stock of land resources. Emphasis will be placed on the establishment of the "Railway + Properties" development model so that we could become a leading urban renewal service provider. We have established an urban renewal project company as an important channel for acquiring land reserve, focusing on the "Railway + Properties" development model, the cooperation with state-owned enterprises and land redevelopment projects covering old factories, old towns and old villages. In 2019, we successfully introduced Guangzhou Metro as our second largest shareholder marking another milestone of our "Railway + Properties" strategy. Also in 2019, we obtained the qualification for the redevelopment of two old villages, namely Lirendong village and Dongliu village in Guangzhou, increasing landbank by 1.63 million sq.m. Elderly-care home business will also be actively developed so that we could become a leading player with strong asset management capability and service capability in the elderly-care sector. Guangzhou Yuexiu Elderly-care Investment Holding Co., Ltd. (廣州越秀養老產業投資控股有限公司) was established to expedite the establishment of our business blueprint in the elderly-care sector, and currently, it has several projects in progress. In response to the national policy for "parallel development of housing for lease and for sale", we have actively developed our rental housing businesses and actively participated in long-term government rental housing projects with the purpose of becoming a leading enterprise with core operation capability and well-known leasing apartment brand in the sector. Meanwhile, we will focus on strengthening and exploring the development of property "+ industries", "+ towns", "+ culture, business and tourism" and other new business types in connection with real estates.

Deepen the Reform of Operation and Management Mechanism and Explore New Approaches to Shorten Our Development Cycle.

We will endeavour to bring in key personnel, including medium-to-high-ranking professional managers and key professionals, comprehensively promote the talent training system and strengthen the team building of professional managers. In addition, We will further strengthen the development of long-term incentive schemes and further refine the execution of co-investment plan and share incentive scheme. To adapt to our regional footprint and the expansion of business scale, we will continue to optimise our organisation control system. Specific measures are to strengthen strategic controls and professional support of headquarters, to stimulate regional business vitality, to improve investment and operational efficiency, to enhance the asset turnover of project development and thus to promote rapid business development. For instance, we have implemented the 3.5-level operational control system to promote decision-making process and management, refine head office operation, strengthen regional operation and optimize project operation.

We will also continue to improve our business and overall financial performance by exploring new development approaches in a proactive manner. We intend to accelerate our project development cycle, further enhance our ability and skills in project development and construction, and implement methodical project planning and cooperative teamwork. We have fully implemented and optimised the activity-based costing and the lean management system with management accounting as its core, and optimised organizational structures and business platforms, so as to enhance our cost control capability.

In addition, we believe that sales and marketing is key to all stages of real estate development, especially in our highly competitive industry. We will adopt a market-driven approach, take proactive and flexible marketing strategies, explore and widen sales channels, increase sell-through rate and cash collection rate, thereby achieving a steady growth in our operating results. We will also intensify research on customer demand and elevate product competitiveness and brand premium.

Continue to Maintain Prudent Financial and Risk Management to Ensure Financial Safety and Liquidity Position.

We will continue to strengthen our financial and cash flow management, expedite the sales cash collection, and explore new channels of funding in order to support sustainable business growth and ensure financial safety and sufficient liquidity. We intend to maintain a prudent policy on financial and risk management including high liquidity and low gearing ratio. We expect to make full use of our fund-raising capabilities to enhance our financial strength through capital and credit markets by tapping new financing channels and platforms as appropriate, and in the meantime, we will further optimise our onshore and offshore funds allocation and reduce our financing cost and foreign exchange risk. We will also continue to improve our internal financial management processes and corporate governance standards and increase our utilisation efficiency of financial resources via our key performance indicator system, while strictly adhering to the principle of prudent financial and risk management, with a particular focus on ensuring that our spending is in line with our cash inflows. We believe that prudent financial and risk management and a strong finance function allow us to avoid the need to sell properties at low prices in a market downturn and position us to seize business opportunities and to efficiently acquire prime land at reasonable costs.

Business Operations

We are principally engaged in the development, sale, management and long-term investment of residential and commercial properties in the PRC and Hong Kong. Over the past 30 years, we have developed numerous landmark properties, including commercial properties such as White Horse Building, City Development Plaza, Fortune Center, Victory Plaza, GZ IFC and Fortune Century Square and Hangzhou Victory, and residential properties such as Guangzhou Starry Sky City, Guangzhou Starry Haizhu Bay, Nanshan Binhai New Town, Nansha Southern Le Sand, Nanhai Starry Mansion, Hangzhou Starry City, Suzhou YueFu Mansion, Wuhan International Financial City, Shenyang Starry Winking, Qingdao Starry City.

We primarily derive our revenues from sale of properties, rental income and property management. Revenue is recorded net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The table below sets forth a breakdown of our revenue by business segment during the periods indicated:

	<u>Year ended 31 December</u>		<u>Six months ended 30 June</u>	
	<u>2018</u>	<u>2019</u>	<u>2019</u>	<u>2020</u>
	<u>RMB (in millions)</u>		<u>RMB (in millions)</u>	
Property development	24,290.3	34,453.7	20,510.2	22,541.8
Property management.....	846.5	888.2	388.5	452.1
Property investment	684.7	689.6	337.1	291.1
Others ⁽¹⁾	611.9	2,037.6	552.3	428.9
Total	<u>26,433.4</u>	<u>38,339.1</u>	<u>21,788.1</u>	<u>23,713.9</u>

Note:

⁽¹⁾ Others primarily include revenue from real estate agency and decoration services, etc.

Our revenue increased significantly by 45 per cent. from RMB26,433.4 million for the year ended 31 December 2018 to RMB38,339.1 million for the year ended 31 December 2019, and our revenue increased by 8.8 per cent. from RMB21,788.1 million for the six months ended 30 June 2019 to RMB23,713.9 million for the six months ended 30 June 2020.

Land Bank

As at 30 June 2020, we had a land bank of approximately 23.6 million sq.m., with a total of 76 projects in 19 cities in the PRC and the regional layout continued to improve. In terms of regional composition, as at 30 June 2020, the GFA of land bank in Greater Bay Area, Eastern China Region, Central China Region, Northern China Region, Western China Region and other regions accounted for approximately 53.9 per cent., 13.0 per cent., 19.0 per cent., 12.2 per cent., 1.6 per cent. and 0.4 per cent., respectively. The table below sets forth a breakdown of our land bank by geography and development stage as at 30 June 2020:

Location	GFA of properties under development (sq.m.)	GFA of properties for future development (sq.m.)	Total GFA (sq.m.)
Greater Bay Area.....	9,910,600	2,815,800	12,726,400
Eastern China Region.....	2,046,600	1,015,800	3,062,400
Central China Region.....	3,463,900	1,038,200	4,502,100
Northern China Region.....	1,615,000	1,260,500	2,875,500
Western China Region.....	363,100	—	363,100
Haikou Simapo Island Project.....	—	100,500	100,500
Total	<u>17,399,200</u>	<u>6,230,800</u>	<u>23,630,000</u>

The following table sets forth additional selected information of our land bank as at 30 June 2020:

No.	Project	Land bank GFA (sq.m.)	GFA of properties under development (sq.m.)	GFA of properties for future development (sq.m.)
1.	Guangzhou International Commerce Center (previous name: Asia Pacific Century Plaza)	229,400	229,400	—
2.	Guangzhou Starry Haizhu Bay	394,600	394,600	—
3.	Guangzhou Joy Bay	154,600	154,600	—
4.	Guangzhou Starry Sky City	558,800	558,800	—
5.	Guangzhou Park Avenue	272,300	272,300	—
6.	Guangzhou Cullinan	382,100	382,100	—
7.	Guangzhou Yue Infinity	878,600	70,700	807,900
8.	Guangzhou Southern Intelligent Media Center	159,800	159,800	—
9.	Guangzhou Panyu Changlong South Land	442,500	148,400	294,100
10.	Guangzhou Panyu Changlong North Land	402,800	—	402,800
11.	Guangzhou Talent Garden (previous name: Guangzhou Zhilian Automobile Town)	833,400	833,400	—
12.	Guangzhou Yue Melody	911,900	674,700	237,200
13.	Guangzhou Yuexiu Poly Aite City	162,000	162,000	—
14.	Nansha Southern Le Sand	864,300	447,200	417,100
15.	Nansha Binhai New Town	309,900	309,900	—
16.	Nansha Yuexiu East Hillside	86,900	86,900	—
17.	Nansha Tianyu Square	134,500	134,500	—
18.	Nansha International Financial Center	220,800	220,800	—
19.	Nansha Joy Bay	410,100	410,100	—
20.	Nansha Jinmao Bay	130,200	130,200	—

No.	Project	Land bank GFA (sq.m.)	GFA of properties under development (sq.m.)	GFA of properties for future development (sq.m.)
21.	Nansha The Willow Shores	140,500	140,500	—
22.	Nansha China Resources Yuexiu Mansion	151,900	151,900	—
23.	Huadu Elegant Mansion	200,300	200,300	—
24.	Huadu Magnificent Mansion	296,700	296,700	—
25.	Huadu Royal Mansion	187,100	187,100	—
26.	Guangzhou Yue Galaxy	1,355,300	934,000	421,300
27.	Zengcheng Joy Mountain	94,700	94,700	—
28.	Conghua Glade Village	213,600	136,100	77,500
29.	Shenzhen Majestic Mansion	169,400	169,400	—
30.	Nanhai Starry Mansion	567,300	522,700	44,600
31.	Foshan Lingnan Junting	17,600	17,600	—
32.	Foshan Longfor Yuexiu Cloud	76,300	76,300	—
33.	Jiangmen Man Wah Mansion	83,000	83,000	—
34.	Jiangmen Yuexiu Binjiang Glorious City	350,100	350,100	—
35.	Jiangmen Yuexiu Binjiang Enjoy City	101,400	101,400	—
36.	Jiangmen Yuexiu Binjiang Grand City	164,500	164,500	—
37.	Heshan Starry Regal Court	264,900	264,900	—
38.	Zhongshan Empyrean Bay (previous name: Zhongshan West District Caihong Land)	230,100	230,100	—
39.	Hong Kong Yau Tong Project	72,100	—	72,100
40.	Other projects	50,100	8,900	41,200
	Subtotal (Greater Bay Area)	12,726,400	9,910,600	2,815,800
41.	Hangzhou Starry City	621,800	425,700	196,100
42.	Hangzhou Garden 1872	230,300	230,300	—
43.	Hangzhou Joy Bay	173,500	173,500	—
44.	Hangzhou Impressive City	317,700	317,700	—
45.	Hangzhou Yue Present	46,500	46,500	—
46.	Hangzhou Manyun Mansion	75,200	75,200	—
47.	Hangzhou Lin'an Shuanglin Land	162,800	—	162,800
48.	Suzhou Joy Bay	116,300	116,300	—
49.	Suzhou Taicang Never Land	866,700	240,500	626,200
50.	Suzhou Splendid Mansion (previous name: Suzhou Xiangcheng Changwang Land)	141,900	141,900	—
51.	Suzhou Wuzhong Xukou Land	30,700	—	30,700
52.	Suzhou Taicang Shaxi Land	61,100	61,100	—
53.	Jiaxing Joy Lane (previous name: Jiaxing Nanhu Yuxin Land)	217,900	217,900	—
	Subtotal (Eastern China Region)	3,062,400	2,046,600	1,015,800
54.	Wuhan International Financial City	573,100	573,100	—
55.	Wuhan Hanyang Starry Winking	1,143,500	866,400	277,100
56.	Wuhan Yuexiu Paradiso Mansion	42,200	42,200	—
57.	Wuhan Joy Mansion	97,400	97,400	—
58.	Wuhan Elite Mansion	78,000	78,000	—
59.	Wuhan Yuexiu Paradiso Garden	143,300	143,300	—
60.	Wuhan Mansion	231,500	231,500	—
61.	Xiangyang Starry City	1,078,000	694,000	384,000
62.	Zhengzhou Elegant Mansion	137,900	137,900	—

No.	Project	Land bank GFA (sq.m.)	GFA of properties under development (sq.m.)	GFA of properties for future development (sq.m.)
63.	Changsha Yue Lake Stage	130,600	130,600	—
64.	Changsha Qin'ai Lane	132,400	132,400	—
65.	Changsha Starry City	714,200	337,100	377,100
	Subtotal (Central China Region)	4,502,100	3,463,900	1,038,200
66.	Shenyang Starry Winking	371,400	353,000	18,400
67.	Shenyang Hill Lake	270,300	34,800	235,500
68.	Qingdao Magnificent Bay	213,200	175,800	37,400
69.	Qingdao Licang Qingyin Highway East Land	666,300	—	666,300
70.	Qingdao Jiaozhou Platinum Mansion	209,100	209,100	—
71.	Qingdao Yue Mansion	50,800	50,800	—
72.	Qingdao Starry City	479,800	176,900	302,900
73.	Ji'nan Baimai Delighted Mansion	562,000	562,000	—
74.	Ji'nan Art Living	52,600	52,600	—
	Subtotal (Northern China Region)	2,875,500	1,615,000	1,260,500
75.	Chengdu Glorious Mansion	296,900	296,900	—
76.	Chengdu Qin'ai Lane	66,200	66,200	—
	Subtotal (Western China Region)	363,100	363,100	—
77.	Haikou Simapo Island Project	100,500	—	100,500
	Total	23,630,000	17,399,200	6,230,800

For the year ended 31 December 2019, we acquired 27 new land parcels located in 11 cities including Guangzhou, Shenzhen, Zhongshan, Jiangmen, Hangzhou, Jiaxing, Zhengzhou, Changsha, Qingdao and Chengdu, with a total GFA of approximately 7.71 million sq.m and the attributable GFA was approximately 5.21 million sq.m. For the six months ended 30 June 2020, we acquired five new land parcels located in Guangzhou, Hangzhou and Suzhou, with total GFA of approximately 1.10 million sq.m.. In terms of the attributable interest to the Group, the attributable GFA was approximately 0.85 million sq.m..

The table below sets forth a breakdown of our land parcels newly acquired for the six months ended 30 June 2020:

No.	Project	Equity holding	Total GFA (sq.m.)	Attributable GFA (sq.m.)
1.	Guangzhou Panyu Changlong South Land	95.48%	442,500	442,500
2.	Guangzhou Panyu Changlong North Land	46.79%	402,800	188,500
3.	Suzhou Taicang Shaxi Land	95.00%	61,100	58,000
4.	Suzhou Wuzhong Xukou Land	100.00%	30,700	30,700
5.	Hangzhou Lin'an Shuanglin Land	95.00%	162,800	154,700
	Total		1,099,900	854,400

The following map shows the regional layout and details of our land bank resource as at 30 June 2020:



Property Development

In developing a project, we follow a process of planning and execution that is systematic in approach while being flexible enough to accommodate new developments in the fast-evolving business and regulatory environments of the PRC property market. Although the nature and sequence of specific planning and execution activities will vary among projects, we summarise below the core elements of our project development process.

Site Assessment

In conjunction with our ongoing market and design research, we identify and evaluate possible sites for new projects. We assess land parcels for use in possible projects based on, among other indicators, our analysis of their potential returns. The factors we take into account in our site assessment primarily include:

- size and location of the parcels;
- transportation access and infrastructure support;
- applicable zoning regulations; and
- existing and future surrounding developments.

Land and Project Acquisition

We generally acquire, and may in the future acquire, land through the following means:

- participating in public tender, auction and listing for sale;
- purchasing government-granted land from developers who may lack experience in developing office and retail properties;
- purchasing projects under development from developers who are less experienced than we are in marketing and sales by way of asset or equity transfers;
- following the requirements of a land reform policy in Guangdong Province, which allow a developer to change the nature of land in old towns, factories and villages to residential and commercial usage, under which the developer has an advantage in obtaining the land use rights in subsequent public bidding following such change;
- land asset injections from our parent company, GZ Yuexiu; and
- acquiring and developing real estate in conjunction with other developers through joint ventures.

Permits and Certificates

Once we have obtained the development rights to a parcel of land, we are required to pay land grant fees in accordance with relevant laws and regulations. As part of the development process, a number of certificates, permits and licenses must be obtained from the PRC government, including:

- land use rights certificate, which is a transferable certification of the right of a party to use a parcel of land;
- construction land planning permit, which is a permit authorizing a developer to begin with the survey, planning and design of a parcel of land;
- construction works planning permit, which is a certificate indicating government approval for a developer's overall planning and design of the project and allowing a developer to apply for a work commencement permit;
- work commencement permit, which is a permit required for commencement of construction; and
- pre-sale permit, which is a permit authorizing a developer to start the pre-sale of property still under construction.

Design

We continually monitor and participate in dialogues on trends in architecture and real estate development, both in the PRC and Hong Kong. We regard our participation in discussions on the direction and prospects of our industry as critical for project planning purposes.

With a view to bringing innovative design perspectives to our projects and increasing our profile generally, with respect to our commercial projects, after purchasing a parcel of land for development, we typically invite three to five international architects (depending on the size of development) to tender via a concept-design competition. We analyse architectural concepts and ideas with a view to determining whether they can be transformed into commercially viable projects. We set out the design criteria in light of the market demand and the functional requirements, such as the ratio of office and retail space, in order to maximise return. The winner of the tender works closely with our in-house design team to translate the overall design concept into detailed design and engineering maps. At the same time, we select a domestic design institute that works with the outside architects to produce the documentation for implementing the design and engineering maps, which form a basis for bidding by contractors.

At the construction stage, our external architects and in-house design team work closely to assist our project engineers to provide continuous on-site supervision and project management. In addition, for a majority of our projects, our subsidiary, City Construction and Development Supervision and Management Company, supervises and manages the construction process. Our goal is to ensure that construction progresses according to design and remains on schedule, within budget and at a satisfactory level of quality.

Subcontracting

We acquire land for development through our project companies incorporated in the PRC and abroad. For each phase of a project which is undertaken by our domestic project company, we seek to encourage fair competition via a transparent bidding process where we invite contractors to tender bids according to their reputation for quality, track record and references in order to ensure both quality and cost competitiveness. We preselect a number of general contractors to bid for our contracts based on the quality of their bids. Subsequently, the winning bidder is selected based on both the quality and price quoted by the bidder. Upon selection, a general contractor enters into a construction contract with us, which are typically fixed-price contracts that provide for periodic payments during the construction process. The construction contracts typically include terms relating to the construction schedule and construction quality.

Under the terms of most of our construction contracts, construction contractors are responsible for the wages of construction workers and procuring basic construction materials for our property development. These construction contractors also bear the risk of fluctuations in wages and basic construction material prices during the term of the relevant contract.

Monitoring and Supervision

Time control. To monitor progress of the construction, our project management department compiles a master plan which sets out the scope and timing of each construction contract throughout the phases from land acquisition, planning, design and invitation to tender, sales, check and final acceptance. A weekly meeting is held during the construction period in which all our main contractors and their subcontractors would participate. The master plan is adjusted in light of any delay reported by the contractors with a view to ensuring the overall project can still be finished on time. We have consistently completed and delivered properties to our customers on or before the deadlines set out in the pre-sales contracts while maintaining the quality of the developments and keeping our construction costs within our budget by strictly complying with our project development procedures.

Quality control. Our development and technical department is generally responsible for preparing the technical standards for all our projects. We exercise on-site inspection and supervision on a day-to-day basis to ensure quality of materials and workmanship. As part of our strategic plan to collectively procure standardised materials, we are typically responsible for procuring specialised building materials, such as windows, doors and interior fixtures to ensure the quality, brands, prices and other specifications to meet customer demand, while the general contractors are responsible for procuring most basic building

materials, such as cement and steel. The general contractors procure all equipment necessary for each project in accordance with specifications provided by us. We do not own construction equipment and do not maintain any inventory of building materials. The general contractors are required by law to provide us with warranties for any losses we incur as a result of the construction not being completed on schedule or not meeting contractually or statutorily specified quality standards.

In addition, we seek to ensure that our projects meet our design specifications. As a result of our efforts, none of our completed property developments has been found to have materially exceeded the amount of GFA originally authorised in the relevant land grant contracts or construction permit or to contain built-up areas that are not in conformity with the plan authorised by the construction permit. In rare cases where our completed properties were found to have minimally exceeded the authorised amount of GFA, we have paid for the margin in due course.

Cost control. For each project, our investment department prepares a master budget which requires approval by our general manager. We have built in a real-time working platform in our ERP system for cost management which gives a detailed analysis of the costs incurred for each project, including comparison with the master budget. We examine the costs incurred monthly and quarterly to ensure that the actual costs incurred conform with the master budget. If the master budget is likely to exceed the initial approved budget, prior approval from senior management must be obtained. Our cost control mechanism in selecting our general contractors is described in “— **Subcontracting**” above.

Marketing

Our promotional and sales activities are conducted through the coordinated efforts of our public relations team and marketing and sales department. We have a dedicated team in the sales and marketing department that conducts detailed analysis of market conditions and formulates unit prices and pricing-related policies for our projects. In addition, as part of our efforts to manage our public profile, our public relations team and marketing and sales department oversee our communications to the media and produce specialised promotional materials.

In terms of product marketing, we organise advertising activities in order to attract media attention. For each new project, in addition to building showrooms prior to development, we typically organise a major launch party attended by celebrities and the local media in Guangzhou and other cities where our projects are located, followed by a large number of launch events and roadshow activities in our targeted cities in the PRC.

With respect to certain commercial projects, we organise auctions for selling our properties from time to time, which serve two purposes. First, the auctions form part of our marketing campaign for the relevant project. Second, and more importantly, the auction outcome is an indicator of the prices of our properties, which helps us determine whether any adjustment to our asking prices is necessary and gives confidence to purchasers and potential customers as to the value of our properties. For our retail tenant customers, on the other hand, we normally meet with our targeted customers and negotiate directly on the terms of the lease or sales contracts.

With respect to our residential projects, the prices are determined taking into account market conditions, local competition and customer demand. We may also adjust the prices from time to time to reflect the market price fluctuations.

We seek opportunities to work with prestigious international companies to further enhance our image among our target customers and improve our overall competitiveness. For instance, we have entered into strategic cooperation agreements with well-known companies to assist us on general properties management, commercial design and hotel management.

Properties Under Development

We are one of the leading property developers in the PRC with our operations primarily conducted in the PRC and Hong Kong. Our property developments include residential, office, retail, commercial mixed-use and car parks. Certain of our property developments are carried out with joint venture partners, mainly other property developers, particularly for large acquisitions. As at 30 June 2020, we had 70 projects under development, with a total GFA of approximately 17,399,200 sq.m.

Contracted Sales

During the six months ended 30 June 2020, we recorded contracted sales (including contracted sales by joint venture projects) of approximately RMB37.6 billion with contracted sales GFA of approximately 1.52 million sq.m., representing an increase of 1.8 per cent. from contracted sales of approximately RMB36.9 billion and a decrease of 7.4 per cent. from contracted sales GFA of approximately 1.64 million sq.m., respectively, over the six months ended 30 June 2019. For the year ended 31 December 2019, we recorded contracted sales (including contracted sales by joint venture projects) of RMB72.11 billion with contracted sales GFA of approximately 3.49 million sq.m., representing a year-on-year increase of 24.8 per cent. from contracted sales of RMB57.78 billion and a year-on-year increase of 26.1 per cent. from contracted sales GFA of approximately 2.77 million sq.m., respectively, for the year ended 31 December 2018.

During the six months ended 30 June 2020, the average selling price was approximately RMB24,700 per sq.m., representing an increase of 9.8 per cent. from approximately RMB22,500 per sq.m. for the six months ended 30 June 2019. For the year ended 31 December 2019, the average selling price was approximately RMB20,700 per sq.m., remaining relatively stable as compared with approximately RMB20,900 per sq.m. for the year ended 31 December 2018.

In terms of regional composition, contracted sales made in Greater Bay Area, Eastern China Region, Central China Region, Northern China Region and Western China Region accounted for approximately 59.6 per cent., 27.2 per cent., 6.9 per cent., 5.3 per cent. and 1.0 per cent. of our aggregate contracted sales for the six months ended 30 June 2020, respectively.

Property Investment

Investment property, principally comprising leasehold and buildings, is property held for long-term rental yields or for capital appreciation or both, and not occupied by us. It also includes properties that are being constructed or developed for future use as investment properties.

Property Portfolio

As at 30 June 2020, we owned investment properties under lease with a total GFA of approximately 452,300 sq.m., mainly comprising Yuexiu Financial Tower, Xiangkang Commercial Plaza, and Nansha Sheraton Hotel of which offices, commercial properties as well as car parks and others accounted for approximately 57.3 per cent., 24.8 per cent. and 17.9 per cent., respectively, of the total GFA. For the years ended 31 December 2018 and 2019 and the six months ended 30 June 2020, we received rental income from investment properties of approximately RMB685 million, RMB690 million and RMB291 million, respectively.

Our rental income from investment properties decreased by 13.6 per cent. for the six months ended 30 June 2020 compared with the six months ended 30 June 2019 due to a disposal of a commercial shopping mall located in Foshan at the end of 2019.

Property Valuation

Our investment properties are measured initially at costs, including related transaction costs and, where applicable, borrowing costs. Borrowing costs incurred for the purpose of acquiring, constructing or producing a qualifying investment property are capitalised as part of its cost. Borrowing costs are capitalised while acquisition or construction is actively underway and cease once the asset is substantially complete, or suspended if the development of the asset is suspended.

After initial recognition, in accordance with HKFRS, we value our investment properties annually on our balance sheet at their fair market value. The valuations are performed as at the balance sheet date by professional valuers who hold recognised and relevant professional qualifications and have recent experience in the location and category of the investment property being valued. Any change in the valuation is charged or credited, as the case may be, to the income statement.

For the year ended 31 December 2018, we recorded net fair value gains on revaluation of investment properties of RMB371 million, while for the year ended 31 December 2019 and the six months ended 30 June 2020, we had net fair value losses on revaluation of investment properties of approximately RMB23 million and RMB18 million, respectively.

Tenant and Lease Profiles

We seek to maintain long-term relationships with our tenants and to maintain a good balance in our tenant composition. We believe that the implementation of our tenant strategy has helped us to retain our tenants and maintain the strength of our rental income base.

The rental amounts we receive under certain leases with commercial properties are based on our participation in the turnover of the businesses. We expect that the rental income from our investment portfolio will continue to provide a stable and recurring source of income to us.

Rents are typically set based on prevailing market rates. We regularly monitor the creditworthiness and payment history of the tenants of our commercial properties. We may elect not to renew the leases of commercial tenants whose creditworthiness is deteriorating or payment history is lagging.

Property Management

For the years ended 31 December 2018 and 2019 and the six months ended 30 June 2020, our revenue from property management was approximately RMB846.5 million, RMB888.2 million and RMB452.1 million, respectively.

Our Unitholding in Yuexiu REIT

As at 30 June 2020, we held 38.37 per cent. of the issued units of Yuexiu REIT, an associated entity which is a HKSE-listed REIT. As at 30 June 2020, the results of operations of Yuexiu REIT were not consolidated in our financial statements, and our share of Yuexiu REIT's results are reflected in our income statement as "share of profit (loss) of associated entities." Corporate actions and decision-making, which include the decision to distribute dividends, is overseen by the independent manager of Yuexiu REIT and is subject to the relevant regulatory and unitholder approvals, including that such transactions are on normal commercial terms at arm's length and are fair and reasonable and in the interests of unitholders as a whole. See "**Risk Factors — Risks Relating to the Group and its Business — We face certain risks and uncertainties with our interaction with, and injection of properties into, Yuexiu REIT.**"

Yuexiu REIT had a total revenue of approximately RMB2,058.1 million for the year ended 31 December 2019, representing an increase of 1.3 per cent. compared with the year ended 31 December 2018, and it had a revenue of approximately RMB831.1 million for the six months ended 30 June 2020,

representing a decrease of 16.9 per cent. compared with the six months ended 30 June 2019. The total distributable income after additional items for the year ended 31 December 2019 amounted to approximately RMB761.2 million, representing a decrease of 10.4 per cent. compared with the year ended 31 December 2018, and the distributable income after additional items for the six months ended 30 June 2020 amounted to approximately RMB318.6 million, representing a decrease of 24.9 per cent. compared with the six months ended 30 June 2019.

Investment Properties of Yuexiu REIT

As at 30 June 2020, the investment properties held by Yuexiu REIT include eight high-quality commercial properties in prime locations in Guangzhou, Shanghai, Wuhan and Hangzhou, which were either acquired from us or the market, with a relatively stable valuation.

Property	Type	Location	Year of Completion	Area of Ownership (sq.m.)	Total Rentable Area (sq.m.)	Property Occupancy Rate ⁽¹⁾	No. of Lease ⁽¹⁾	Unit Rent ⁽¹⁾ (VAT exclusive) (RMB/sq.m. / month)	Appraised Value (RMB million)
White Horse Building	Wholesale mall	Guangzhou	1990	50,199.3	50,128.9	97.3%	893	624.7	5,098
Fortune Plaza	Grade A office	Yuexiu District Guangzhou	2003	42,763.5	41,355.2 ⁽²⁾	97.1%	73	155.0	1,252
City Development Plaza	Grade A office	Tianhe District Guangzhou	1997	44,501.7	42,397.4 ⁽³⁾	96.2%	96	140.1	1,033
Victory Plaza	Retail shopping mall	Tianhe District Guangzhou	2003	27,698.1	27,262.3	94.1%	24	207.6	947
Guangzhou IFC	Commercial complex	Tianhe District Guangzhou	2010	457,356.8	230,266.9	94.5%	276	220.3	18,831
Including:	Grade A office			267,804.4	183,539.6 ⁽⁴⁾	94.0%	224	239.4	N/A
	Retail shopping mall			46,989.2	46,727.3	96.7%	52	147.3	N/A
	Hotel			91,460.9 ⁽⁵⁾	N/A	N/A	N/A	N/A	N/A
	Serviced apartments			51,102.3	N/A	N/A	N/A	N/A	N/A
Yue Xiu Tower	Commercial complex	Shanghai Pudong New District	2010	62,139.4	46,026.3 ⁽⁶⁾	88.1%	107	259.8	3,156
Wuhan Properties	Commercial complex	Wuhan Qiaokou District		248,194.2	172,993.3	85.2%	236	85.7	3,674
Including:	Grade A office		2016	139,937.1	129,446.7 ⁽⁷⁾	82.9%	143	96.6	N/A
	Retail shopping mall		2015	45,471.4	43,546.6 ⁽⁸⁾	92.2%	93	56.4	N/A
	Commercial parking space		2015-2016	47,182.9	N/A	N/A	N/A	N/A	N/A
	Residential parking space		2014-2016	15,602.8	N/A	N/A	N/A	N/A	N/A
Hangzhou Victory	Grade A Office	Hangzhou Jiangan District	2017	40,148.4	22,484.8 ⁽⁹⁾	97.8%	26	117.0	608
Total				<u>973,001.4</u>	<u>632,915.1</u>	92.1%	1,731	208.3	34,599

Notes:

- (1) As at 30 June 2020;
- (2) Excluding 1,408.3 sq.m. of carpark spaces;
- (3) Excluding 2,104.3 sq.m. of carpark spaces;

- (4) Excluding 76,512.3 sq.m. of carpark spaces and 7,752.5 sq.m. of other ancillary facilities space;
- (5) Including 2,262.0 sq.m. of hotel ancillary facilities space and refuge floor;
- (6) Excluding 13,502.6 sq.m. of carpark spaces and 2,610.4 sq.m. of specific purpose space (management office, owners' committee office, bicycle parking space and refuge floor);
- (7) Excluding 10,490.3 sq.m. of common facilities space and refuge floor;
- (8) Excluding 1,924.8 sq.m. of common facilities space;
- (9) Excluding 17,663.6 sq.m. of carpark spaces.

Property Descriptions of Yuexiu REIT Properties

As at 30 June 2020, Yuexiu REIT had approximately 973,001.4 sq.m. of aggregate area of ownership. The following is a brief description of Yuexiu REIT's properties as at 30 June 2020.

White Horse Building

The property primarily consists of a wholesale commercial centre located in Yuexiu District, Guangzhou. Total area of ownership of this property is approximately 50,199.3 sq.m. This property was completed in 1990 and its net property income was RMB313.9 million for the year ended 31 December 2019. The White Horse Building was valued at RMB5,098 million as at 30 June 2020.

Fortune Plaza

The property primarily consists of Grade A office space located in Tianhe District, Guangzhou. Total area of ownership of this property is approximately 42,763.5 sq.m. This property was completed in 2003 and its net property income was RMB62.5 million for the year ended 31 December 2019. The Fortune Plaza was valued at RMB1,252 million as at 30 June 2020.

City Development Plaza

The property is a commercial complex integrating office, finance, business and food and beverage functions located in Tianhe District, Guangzhou. Total area of ownership of this property is approximately 44,501.7 sq.m. This property was completed in 1997 and its net property income was RMB55.2 million for the year ended 31 December 2019. The City Development Plaza was valued at RMB1,033 million as at 30 June 2020.

Victory Plaza

The property is a commercial complex integrating office and shopping mall located in Tianhe District, Guangzhou. Total area of ownership of this property is approximately 27,698.1 sq.m. This property was completed in 2003 and its net property income was RMB63.8 million for the year ended 31 December 2019. The Victory Plaza was valued at RMB947 million as at 30 June 2020.

Guangzhou IFC

Guangzhou IFC is a commercial development project located in Tianhe District, Guangzhou with a total area of ownership of approximately 457,356.8 sq.m. Its net property income was RMB705.2 million for the year ended 31 December 2019. Guangzhou IFC was valued at RMB18,831 million as at 30 June 2020.

Yue Xiu Tower

Acquired by Yuexiu REIT from market, the property primarily consists of Grade A office located in Zhuyuan commercial district, Pudong, Shanghai. Total area of ownership of this property is approximately 62,139.4 sq.m. This property was completed in 2010 and its net property income was RMB122.1 million for the year ended 31 December 2019. Yuexiu Tower was valued at RMB3,156 million as at 30 June 2020.



Wuhan Properties


The properties primarily consist of office building and shopping mall located in Qiaokou District in Wuhan. Total area of ownership of the properties is approximately 248,194.2 sq.m. The properties were completed in 2016 and its net property income was RMB145.6 million for the year ended 31 December 2019. The Wuhan Properties was valued at RMB3,674 million as at 30 June 2020.

Hangzhou Victory

The properties primarily consist of Grade A office space located in Jianggan District, Hangzhou. Total area of ownership of the properties is approximately 40,148.4 sq.m. The properties were completed in 2016 and its net property income was RMB26.4 million for the year ended 31 December 2019. Hangzhou Victory was valued at RMB608 million as at 31 December 2020.

Intellectual Property Rights

We have been using the trademarks, “” and “”, which have been registered by our parent company, GZ Yuexiu, with the PRC Trademark Office under various categories relating to real estate, finance, advertising, investment management, printing and others. GZ Yuexiu has permitted us to use these trademarks in our business operations.

We have also been using the trademark “” which has been registered by GZ Yuexiu, with the Trademarks Registry in Hong Kong in Part A, classes 1, 3, 6, 9, 14, 16, 18, 25, 35, 36, 37, 38, 39, 40, 41, 42, 43, 44 and 45. GZ Yuexiu has permitted us to use this trademark in our business operations. We are also the owner of the domain name of www.yuexiuproperty.com, the contents of which do not form part of this Offering Circular.

Insurance

We maintain insurance policies with insurance companies in the PRC, which cover property damage due to natural hazards, including lightening, typhoons and other natural phenomena, and accidents, including fire and explosion, and general liability under property all risk insurance, construction all risk insurance and public liability insurance. There are, however, certain types of risks that are not covered by our insurance policies, including losses resulting from war, nuclear contamination, tsunami, pollution and acts of terrorism. As at 30 June 2020, we had not experienced any significant loss or damage to our properties. In addition, we maintain employer’s liability insurance covering bodily injury, medical treatment and litigation expenses for our employees.

According to PRC laws, under certain circumstances, the owner or manager of properties under construction may bear civil liability for personal injuries arising out of construction work unless the owner or manager can prove that it is not at fault. We take steps to prevent construction accidents and personal injuries, and as a result, we believe that we will generally be able to demonstrate that we were not at fault as the property owner if a personal injury claim is brought against us.

We believe that we have sufficient insurance coverage in place and that the terms of our insurance policies are in line with industry practice in the PRC. Nonetheless, there are risks that we do not have sufficient insurance coverage for some damage and liabilities that may arise from our business operations. See also **“Risk Factors — Risks Relating to the Group and its Business — We may suffer losses arising from uninsured risks”**.

Competition

With respect to our development properties, we compete with a number of other property developers, principally for the acquisition of suitable development sites. The supply of land available for development in the PRC and Hong Kong is constrained by a number of factors, including topography and government land development policy.

With respect to our investment properties, we compete with other major property developers to attract residential, commercial and industrial tenants and to draw customers to the retail outlets, restaurants, car parks and hotels in our developments. We compete for tenants primarily based upon the quality and location of our buildings, our reputation as a building owner and the quality of our support services. See **“Risk Factors — Risks Relating to Our Industry — We face increasing competition in the PRC property market”**.

Environmental Matters

As a developer of commercial and residential projects in the PRC, we are subject to various environmental laws and regulations set by various PRC government entities. These include regulations on project design and construction, air and noise pollution and discharge of waste and water into the environment.

As required by PRC law, we must, depending on the impact of the project on the environment, submit an environmental impact assessment report, an environmental impact analysis table or environmental impact registration form before the relevant authorities will grant approval for the commencement of construction of the project. The Company believes that we are generally in compliance with such requirements in respect of our projects under development and have never received any material fines or penalties associated therewith. However, as with all property developers and their properties, we are subject to numerous risks and uncertainties, some of which are beyond our control. See **“Risk Factors — Risks Relating to the Group and its Business — Potential liability for non-compliance with environmental laws and regulations could result in substantial costs and delays in construction schedule”**.

In relation to environmental protection, we facilitate the research and development of green building technologies, actively promote the application of the research achievements, and formulate applicable guidelines on technological design, construction and operational management that are in line with our practical needs, so as to create a green value chain with its unique characteristics. As for planning and design, certain projects are designed in accordance with the national green building standards and the U.S. LEED certification and assessment standards. As for materials, products with high-quality, energy-saving, low-carbon and environmental-friendly features are purchased at first priority. As for construction, construction technologies that meet environmental standards are adopted to reduce pollution and damage to the environment caused by dust, noise, waste gas and waste water produced in the course of construction.

Facilities

Our registered office is located at 26th Floor, Yue Xiu Building, 160 Lockhart Road, Wanchai, Hong Kong. Our registered office is owned by our controlling shareholder, Yue Xiu and staffed by management and office personnel. We also have offices on the 23rd Floor and 25th Floor of Yue Xiu Building staffed by management and office personnel.

In addition, we have offices at several floors in Guangzhou IFC, which is located at No. 5 Zhujiang Road West, Guangzhou. Our offices in Guangzhou IFC, which serve as our headquarters in the PRC, are staffed by personnel from various departments including project development and management, finance, legal, commercial and investment.

Employees

As at 30 June 2020, we had approximately 10,740 employees. We have not experienced any strikes or other disruptions due to labour disputes. We believe our relationships with our employees are good.

We offer our employees reasonable remuneration in accordance with industry practice. Salary increment and promotion of employees are based on performance and achievements. The plan of co-investment by project management teams was fully promoted with the Group with an aim to share risks and profits to effectively motivate them. In order to provide strong and sound personnel support for company development, we promoted the implementation of systematic staff development plan, optimised the current training system for key staff members and actively recruited outstanding professional managers.

In the meantime, we provide our employees with other benefits, such as mandatory provident funds, medical insurance, educational allowances and professional training. We adopted the share incentive scheme on 2 December 2016 and the share award scheme on 17 March 2017 with a view to achieving the objective of aligning the interests of the selected senior management participants with those of the shareholders of the Company.

Legal Proceedings

From time to time, we have been involved in legal proceedings or other disputes in the ordinary course of our business which are primarily disputes with our tenants, contractors and employees, and we have not incurred significant legal costs and expenses in connection with these legal proceedings. As at the date of this Offering Circular, some of our PRC subsidiaries have been entered as judgment debtors subject to enforcement by the People's Courts, where we have to make relevant payments or proceed with the contract executing procedures in relation to real property conveyance in the government on-line system with the third party or perform other obligations; some of our PRC subsidiaries have been involved in litigations as defendants in relation to, among others, construction contract disputes with third parties and such litigations are still ongoing, but we believe that the amount of such disputes and enforcement of judgments is minimal compared to the consolidated total assets of the Company, and thus we believe such claims should not have any material adverse effect on us or any of our relevant subsidiaries. Based on the foregoing, we have come to the conclusion that we are not involved in any material legal proceedings, claims or disputes currently existing or pending against us that may have a material adverse impact on our business, financial condition and results of operations.

MANAGEMENT

As of the date of this Offering Circular, the following table sets forth selected information of the Directors of the Company:

Name	Age	Position
Mr. LIN Zhaoyuan.....	51	Chairman, Executive Director
Mr. LIN Feng	49	Vice Chairman, Executive Director
Mr. LI Feng	52	Executive Director
Ms. CHEN Jing	48	Executive Director
Ms. LIU Yan.....	42	Executive Director
Mr. QUYANG Changcheng.....	51	Non-Executive Director
Mr. YU Lup Fat Joseph	73	Independent Non-Executive Director
Mr. LEE Ka Lun.....	65	Independent Non-Executive Director
Mr. LAU Hon Chuen, GBS, JP, <i>alias</i> Ambrose Lau.....	73	Independent Non-Executive Director

Executive Directors

Mr. Lin Zhaoyuan, aged 51, was appointed Chairman of the Company in August 2018. Mr. Lin has been an executive director of the Company since November 2015. He had been Vice Chairman and General Manager of the Company. He is also chairman of the board of Guangzhou City Construction & Development Co. Ltd. (“GCCD”). Mr. Lin holds a bachelor degree of economics and a master of business administration degree of the Sun Yat-sen University and the qualification of mechanical engineer. He had been chairman of the board of Guangzhou Paper Group Limited, an assistant to general manager and a deputy general manager of Guangzhou Yue Xiu Holdings Limited (“Guangzhou Yue Xiu”), the ultimate holding company of the Company, and Yue Xiu Enterprises (Holdings) Limited (“Yue Xiu”), and chairman and a non-executive director of Yuexiu REIT Asset Management Limited (the manager of Yuexiu Real Estate Investment Trust, which is listed on The Stock Exchange of Hong Kong Limited (“Stock Exchange”) (Stock Code: 405)). Mr. Lin has extensive experience in corporate management, sound and efficient management, cost control and corporate restructuring and development and is more forward-looking and innovative in corporate operations and management.

Mr. Lin Feng, aged 49, was appointed Vice Chairman, executive director and General Manager of the Company in August 2018. Mr. Lin is also a director and general manager of GCCD, director of Guangzhou Yuexiu Commercial Real Estate Investment & Management Co., Limited. Mr. Lin graduated from Guangdong University of Finance & Economics (formerly known as Guangdong Commercial College) in accounting with a Bachelor’s degree in economics. Mr. Lin holds a Master’s degree in business administration from the University of Western Sydney and the qualification of accountant awarded by the Ministry of Finance of the People’s Republic of China. Since 1994, Mr. Lin has joined Guangzhou City Construction Development Holding Co., Limited. He served as deputy general manager of finance department and corporate management department, general manager of finance department of GCCD, assistant to general manager of the Company and the general manager of urban renewal projects group (i.e., the Company’s urban renewal sector). He has served as a deputy general manager of the Company since 2014 and has been in charge of investment sector, customer resource management and synergy, and business operation within Bay West, railway transit development of Greater Bay Area, Chengdu and Hainan companies. He has also participated in various major capital operation and financing projects of the Company with extensive experience in enterprise investment decision making and financing management.

Mr. Li Feng, aged 52, was appointed executive director of the Company in March 2014. Mr. Li is the chief capital officer of Guangzhou Yue Xiu and Yue Xiu and oversees the capital department, customer resource management and synergy department, and the information centre of Guangzhou Yue Xiu and Yue Xiu. He is mainly responsible for formulating and implementing major capital management plans,

organizing and coordinating the investor relationship of the listed companies, optimizing and synergizing the customer resources, and enhancing the development of information technology system. Mr. Li is also a director of GCCD, chairman and a non-executive director of Yuexiu Financial Holdings Limited (“YFHL”); a non-executive director of Yuexiu REIT Asset Management Limited (the manager of Yuexiu Real Estate Investment Trust (Stock Code: 405)), a non-executive director of Chong Hing Bank Limited (“Chong Hing Bank”) (Stock Code: 1111), Chairman and an executive director of Yuexiu Transport Infrastructure Limited (“Yuexiu Transport”) (Stock Code: 1052), the shares of the companies mentioned above are listed on the Stock Exchange; a director of Guangzhou Yuexiu Financial Holdings Group Co., Ltd. (廣州越秀金融控股集團股份有限公司) (“GZYFHL”), a company listed on the Shenzhen Stock Exchange (Stock Code: 987) and the chairman of the board of directors of Yue Xiu Securities Holdings Company Limited. Mr. Li graduated from the Faculty of Naval Architecture and Ocean Engineering of South China University of Technology majoring in naval architecture and obtained a master of business administration degree from Jinan University. He holds the qualification of a Senior Engineer in China and the certificate in Major Administrative Decision-Making and Argumentation (廣州市重大行政決策論證專家) conferred by the Guangzhou Municipal Government, he is also a president of Association of Guangzhou Belt and Road Investment Enterprises, member of Guangzhou Housing Provident Fund Management Committee, director of Guangzhou People’s Association for Friendship with Foreign Countries and vice-president of The Listed Companies Council, Hong Kong Chinese Enterprises Association. Mr. Li joined Yue Xiu in December 2001 and has successively held positions in Guangzhou Yue Xiu and Yue Xiu including the assistant to general manager, general manager of capital department, assistant manager of corporate management department, assistant to general manager of supervision and auditing department and deputy general manager of Yue Xiu International Development Limited. Mr. Li is familiar with business of listed companies and the operations of capital markets. Since 2008, he has participated in all of the major capital operation projects of Guangzhou Yue Xiu and Yue Xiu; before that, he was also involved in the successful listing of Yuexiu Real Estate Investment Trust and has extensive practical experience in capital operations.

Ms. Chen Jing, aged 48, was appointed executive director of the Company in July 2017. Ms. Chen is the chief financial officer of the Company. She is also the chief financial officer and general manager of the finance department of Guangzhou Yue Xiu and Yue Xiu, a director of GCCD, a director of Guangzhou Yuexiu Fengxing Foods Group Co., Ltd (“YX Fengxing”), a non-executive director of YFHL and Chong Hing Bank and an executive director of Yuexiu Transport. Ms. Chen graduated from Xi’an Jiaotong University in audit studies, and holds a master of business administration degree of the School of Management and Economics of the Beijing Institute of Technology and the qualification of auditor and certified internal auditor. Ms. Chen joined Guangzhou Yue Xiu in July 2004 and was the deputy general manager of the supervisory (audit) office, the general manager of the audit department and the chairman of the board of directors of Yue Xiu Securities Holdings Company Limited. Ms. Chen has participated in building systems to monitor the major risks and finance of Guangzhou Yue Xiu. Ms. Chen is well versed in risk and internal control management, financial management of listed companies and has extensive experience in establishing a sound system for risk management and internal control, financial management for enterprises. Prior to joining Guangzhou Yue Xiu, Ms. Chen worked in school of business of the Hubei University and Hisense Kelon Electrical Holdings Company Limited.

Ms. Liu Yan, aged 42, was appointed executive director of the Company in August 2018. Ms. Liu is the chief human resources officer and general manager of management department of Guangzhou Yue Xiu and Yue Xiu, general manager of the human resources (organization) department of Guangzhou Yue Xiu and human resources department of Yue Xiu. She is also a director of GCCD, GZYFHL, Guangzhou Yuexiu Jinrong Holdings Group Co., Limited, Guangzhou Yuexiu Financial Leasing Co., Limited, Shanghai Yuexiu Finance Leasing Co., Limited, Guangzhou Paper Group Limited and YX Fengxing. Ms. Liu graduated from Nankai University with a Bachelor’s degree in sociology and a Master’s degree in sociology and from Shanghai Jiao Tong University with an Executive Master of business administration degree. She holds the qualification of Human Resources Management and Economics (intermediate level). Ms. Liu joined Guangzhou Yue Xiu in July 2002 and was the head of human resources of Guangzhou Yue Xiu and Yue Xiu. She has led the implementation of several major projects for Guangzhou Yue Xiu on

mobilization and optimization of human resources, development of appraisal system and sound and efficient management. Ms. Liu has extensive work experience in human resources management and operation management in large business enterprises.

Non-executive Director

Mr. Ouyang Changcheng, aged 51, was appointed non-executive director of the Company in July 2019. Mr. Ouyang currently serves as the Chief Planner of Guangzhou Metro Group Co., Ltd. (廣州地鐵集團有限公司) (“**Guangzhou Metro**”). Mr. Ouyang holds a bachelor degree in engineering and a master degree in engineering from Southwest Jiaotong University. Mr. Ouyang had served in various different positions, including as the deputy general engineer of Guangzhou Metro, the deputy general engineer of Guangzhou Metro Corporation (廣州市地下鐵道總公司), and the director of the Planning & Reserve Center directly under Guangzhou Metro. Mr. Ouyang has strong communication and coordination and business expansion capabilities and extensive experiences in corporate operation and management. Mr. Ouyang has been engaged in the planning of urban rail transit networks of Guangzhou. He is familiar with urban development planning and has strong integration and coordination capabilities in project management.

Independent Non-executive Directors

Mr. Yu Lup Fat Joseph, aged 73, has been an independent non-executive director of the Company since 1992. He is also an independent non-executive director of YFHL and Chong Hing Bank. Mr. Yu holds a master’s degree in applied finance from Macquarie University in Australia and a diploma of management studies from the University of Hong Kong. Mr. Yu has over 40 years of experience in investment, banking and finance.

Mr. Lee Ka Lun, aged 65, has been an independent non-executive director of the Company since 2000. He is also an independent non-executive director of YFHL and Chong Hing Bank. He is an accountant by profession. Mr. Lee is a Fellow of the Association of Chartered Certified Accountants in UK and has over 20 years of experience in banking and auditing. He is an independent non-executive director of Chow Sang Sang Holdings International Limited (Stock Code: 116), Medicskin Holdings Limited (Stock Code: 8307), Ever Harvest Group Holdings Limited (Stock Code: 1549) and Best Mart 360 Holdings Limited (Stock Code: 2360) (effective 18 December 2018). The shares of the companies mentioned above are listed on the Stock Exchange.

Mr. Lau Hon Chuen, GBS, JP, alias Ambrose Lau, aged 73, has been an independent non-executive director of the Company since 2004. He obtained a bachelor of laws degree from the University of London and is a Solicitor of the High Court of Hong Kong, a China-Appointed Attesting Officer and a Notary Public. Mr. Lau is the Senior Partner of Messrs. Chu & Lau, Solicitors & Notaries. Mr. Lau is currently an independent non-executive director of Glorious Sun Enterprises Limited (Stock Code: 393), Yuexiu Transport and Joy City Property Limited (Stock Code: 207). The shares of the companies mentioned above are listed on the Stock Exchange. He is also a Director of Bank of China Group Insurance Company Limited, BOC Group Life Assurance Company Limited, Nanyang Commercial Bank, Limited, Sun Hon Investment & Finance Limited, Wydoff Limited, Wytex Limited, Trillions Profit Nominees & Secretarial Services Limited, Helicoil Limited, Wyman Investments Limited and Cinda Financial Holdings Co., Limited. Mr. Lau served as the Chairman of the Central and Western District Board between 1988 and 1994, the President of the Law Society of Hong Kong in 1992-1993, a Member of the Bilingual Laws Advisory Committee between 1988 and 1997 and a Member of the Legislative Council of Hong Kong from 1995 to 2004 (between 1997 and 1998 he was a member of the Provisional Legislative Council). He has served as a Standing Committee Member of the 10th, 11th and 12th National Committee of the Chinese People’s Political Consultative Conference.

The Board of Directors (the “Board”)

The overall management of the Company’s business is vested in the Board, which assumes the responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising its affairs in the interests of the Company.

The Board has delegated the supervision of the day-to-day management of the Company’s business to the executive directorate, and focuses its attention on matters affecting the Company’s overall strategic policies and finances, including: the approval and monitoring of all policy matters, overall business strategies and budgets, corporate governance, internal control and risk management systems, financial statements, dividend policy, major financial arrangements and major investments, treasury policies, appointment of directors and other significant financial and operational matters.

All directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary or external legal advisors, where appropriate, with a view to ensuring compliance of all Board procedures, applicable rules and regulations.

Each director may seek independent professional advice in appropriate circumstances at the Company’s expense, upon request to the Board.

Board Committees

The Board has established three committees, namely, the Audit Committee, the Remuneration Committee and the Nomination Committee for overseeing particular aspects of the Company’s affairs. All Board committees of the Company are established with defined written terms of reference. The full terms of reference of these committees are available on the Company’s website (www.yuexiuproperty.com) and the website of the Hong Kong Stock Exchange.

Audit Committee

The Audit Committee comprises three independent non-executive directors (including one independent non-executive director who possesses the appropriate professional qualifications or accounting or related financial management expertise) and Mr. Yu Lup Fat Joseph is the chairman of the committee. None of the members of the Audit Committee is a former partner of the Company’s existing external auditor.

The main duties of the Audit Committee include the following:

- to review the relationship with the external auditor by reference to the work performed by the auditor, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditor;
- to review the financial statements and reports and consider any significant or unusual items raised by the qualified accountant or external auditor before submission to the Board; and
- to review the adequacy and effectiveness of the Company’s financial reporting system, risk management and internal control systems, the internal audit function and associated procedures.

The Audit Committee held two meetings during the year ended 31 December 2019 to review the financial results and reports, financial reporting and compliance procedures, internal control system and risk management system and the re-appointment of the external auditors.

Remuneration Committee

The Remuneration Committee comprises three independent non-executive directors, namely Mr. Yu Lup Fat Joseph, Mr. Lee Ka Lun and Mr. Lau Hon Chuen Ambrose, and one executive director, namely Mr. Lin Zhaoyuan. The chairman of the committee is Mr. Yu Lup Fat Joseph.

The primary objectives of the Remuneration Committee include making recommendations on the remuneration policy and structure, and recommendations on the remuneration packages of the executive directors and the senior management, including benefits in kind, pension rights and compensation payments such as compensation payable for loss or termination of their office or appointment. The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his associates will participate in deciding his own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

One meeting was held in 2019 to review and make recommendations on the remuneration policy and structure of the Company and remuneration packages of the executive directors for the year under review and the remuneration of newly appointed executive directors.

Nomination Committee

The Board established the Nomination Committee on 1 March 2012. The Nomination Committee comprises two executive directors and three independent non-executive directors. The committee is chaired by the Chairman of the Board.

The role and function of the Nomination Committee include reviewing the structure, size and composition of the Board, assessing the independence of the independent non-executive directors and making recommendations on the selection of individuals nominated for directorship, the appointment or re-appointment of directors and succession planning for directors. In assessing the Board composition, the Nomination Committee would take into account various aspects set out in the Board Diversity Policy, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. Board members' appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board. The Board is currently comprised of diversified members, including 9 directors, two of whom are females. Five executive directors are experienced in finance, accounting, capital operations, real estate development, human resource management and operation management, one non-executive director and the other three directors, being the independent non-executive directors, contribute extensive experiences in the legal and compliance, acquisition and mergers, capital operations as well as financial businesses to the Board. In order to ensure that the Board possesses experiences and skills relevant to its strategy and the ability and mindset to manage changes from time to time in new generation, the Nomination Committee formulates the following measurable objectives: gender, age, length of tenure, professional experience and knowledge (e.g. legal, accounting, finance, real estate development and capital management, etc.), reviews the diversity of the Board and makes proposal to the Board if necessary.

In accordance with the strategic needs of the Board, suitable candidates are identified for consideration by the Nomination Committee. The Nomination Committee would consider such candidates based on various factors such as the gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service set out in the Board Diversity Policy. Recommendation will be made to the Board based on meritocracy and objective criteria, having due regard for the benefits of diversity on the Board. The Board will ultimately decide on the merits of the candidate and their potential contributions to the Board. New directors so appointed shall be re-elected at the Company's general meeting as required by the articles of association.

The Nomination Committee held one meeting during the year ended 31 December 2019 to review the structure, size and composition of the Board.

Directors' Interest

As at 30 June 2020, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its other associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)), which are required to be recorded in the register maintained by the Company under Section 352 of the SFO or notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (“Model Code”) were as follows:

The Company

- Long positions in shares of the Company:

<u>Name of Director</u>	<u>Nature of interest</u>	<u>Beneficial interest in shares</u>	<u>Approximate per cent. of interest</u>
Mr. Lin Zhaoyuan (Note 1)	Beneficial owner/Beneficiary of a trust	5,543,319	0.036
Mr. Lin Feng (Note 2).....	Beneficial owner/Beneficiary of a trust/Spouse Interest	7,242,234	0.047
Mr. Li Feng	Beneficial owner	172,900	0.001
Ms. Liu Yan	Beneficial owner	17,000	0.0001
Mr. Yu Lup Fat Joseph.....	Beneficial owner	4,000,000	0.026
Mr. Lee Ka Lun.....	Beneficial owner	3,200,000	0.021
Mr. Lau Hon Chuen Ambrose.....	Beneficial owner	4,841,200	0.031

Note 1: Mr Lin Zhaoyuan is interested in 5,543,319 Shares, out of which 1,108,165 Shares are owned by him as beneficial owner, 4,435,154 Shares are held for him as a beneficiary of the Yuexiu Property Company Limited Share Incentive Scheme Trust For Directors and Senior Management.

Note 2: Mr Lin Feng is interested in 7,242,234 Shares, out of which 2,925,787 Shares are owned by him as beneficial owner, 4,216,447 Shares are held for him as a beneficiary of the Yuexiu Property Company Limited Share Incentive Scheme Trust For Directors and Senior Management and 100,000 Shares are held by his spouse.

Yuexiu Transport

- Long positions in shares of Yuexiu Transport:

<u>Name of Director</u>	<u>Nature of interest</u>	<u>Beneficial interest in shares</u>	<u>Approximate per cent. of interest</u>
Mr. Lin Zhaoyuan.....	Beneficial owner	120	0.00001
Ms. Liu Yan	Beneficial owner	485	0.00003
Mr. Lau Hon Chuen Ambrose.....	Beneficial owner	195,720	0.012

Save as disclosed herein, as at 30 June 2020, none of the directors of the Company had or was deemed to have any interest or short position in the shares, underlying shares or debentures of the Company or its other associated corporations (within the meaning of Part XV of the SFO), which are required to be recorded in the register maintained by the Company pursuant to Section 352 of the SFO or notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

Save as disclosed herein, at no time during the year was the Company or a subsidiary a party to any arrangement to enable the directors of the Company (including their spouse and children under 18 years of age) to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

REGULATION

The following discussion summarises certain aspects of PRC laws and regulations that are relevant to our operations and business. These include laws relating to land, real estate development, foreign invested enterprises and foreign exchange controls. For a description of the legal risks relating to government regulations of our business, and in particular the land system in China, see “Risk Factors”.

The Foreign Investment Law and its Implementation Regulations

The Foreign Investment Law (中華人民共和國外商投資法) and the Implementation Regulations on the Foreign Investment Law (中華人民共和國外商投資法實施條例) came into effect on January 1, 2020 and simultaneously replaced the Law on Sino-Foreign Equity joint ventures (中華人民共和國中外合資經營企業法), the Law on Sino-Foreign Contractual Joint Ventures (中華人民共和國中外合作經營企業法) and the Wholly Foreign-owned Enterprise Law (中華人民共和國外資企業法), to become the general law applicable for foreign investment within the PRC. For discrepancies between any provisions on foreign investment developed before 1 January 2020 and the Foreign Investment Law with its implementation regulations, the latter shall prevail.

The Foreign Investment Law specifically stipulates the following forms of investment activities as “foreign investments”, namely, (a) establishment of a foreign-invested enterprise in the PRC by a Foreign Investor, either individually or collectively with any other investor, (b) obtaining shares, equities, assets interests or any other similar rights or interests of an enterprise in the PRC by a Foreign Investor, (c) investment in any new construction project in the PRC by a Foreign Investor, either individually or collectively with any other investor, and (d) investment in any other manners stipulated under laws, administrative regulations or provisions prescribed by the State Council.

The Foreign Investment Law establishes the administration systems for foreign investment, which mainly consists of pre-establishment national treatment plus negative list, foreign investment information report system and security review system. The said systems, together with other administrative measures stipulated under the Foreign Investment Law, constitute the framework of foreign investment administration. The pre-establishment national treatment refers to granting to foreign investors and their investments, in the stage of investment access, the treatment no less favorable than that granted to domestic investors and their investments; the negative list refers to special administrative measures for access of foreign investment in specific fields as stipulated by the State. The State will give national treatment to foreign investments outside the negative list.

Establishment of Foreign-invested Real Estate Enterprises

According to the Law of the People’s Republic of China on Administration of Urban Real Estate (中華人民共和國城市房地產管理法) (the “**Urban Real Estate Law**”), promulgated by the Standing Committee of the NPC on 5 July 1994 and effective on 1 January 1995, and amended on 30 August 2007, 27 August 2009 and 26 August 2019 respectively by the Standing Committee of the NPC, a property developer is defined as an enterprise which engages in the development and operation of property for the purpose of making profits. Under the Regulations on Administration of Development and Operation of Urban Real Estate (城市房地產開發經營管理條例) (the “**Development and Operation Regulations**”), promulgated and implemented by the State Council on 20 July 1998 and amended by the State Council on 8 January 2011, 24 March 2019 and 27 March 2020, an enterprise which is to engage in property development shall satisfy the following requirements: (i) its registered capital shall be RMB1 million or more; and (ii) have four or more full-time professional property/construction technicians and two or more full-time accounting officers, each of whom shall hold the relevant qualification certificate. The local government of a province, autonomous region or municipality directly under the central government may, based on local circumstances, impose more stringent requirements on the registered capital and the professional personnel of a property developer.

Under the Notice to Adjust and Promote the System of Capital Fund for Investment Projects in Fixed Assets (關於調整和完善固定資產投資項目資本金制度的通知) issued by the State Council on 9 September 2015, the minimum portion of capital fund for affordable housing and ordinary housing is 20 per cent., while for other real estate development project, the minimum capital portion is 25 per cent.

To establish a property development enterprise, the developer should apply for registration with the Administration for Industry and Commerce above county level according to the Development and Operation Regulations. The property developer must also report its establishment to the government authority in the jurisdiction where the registration authority is located, within 30 days of the receipt of its Business License. Where a foreign-invested enterprise is to be established to engage in the development and sale of property, the relevant requirements of the laws and administrative regulations regarding foreign-invested enterprises must also be observed and relevant examination and approvals be administered and received.

Under the Foreign Investment Industrial Guidance Catalogue (外商投資產業指導目錄) promulgated by the MOFCOM and the NDRC in November 2004, effective as at 1 January 2005, foreign investment in the development and construction of ordinary residential units is encouraged, whereas foreign investment in the development of a whole land lot which shall be operated only by a Sino-foreign equity joint venture or a Sino-foreign co-operative joint venture, and the construction and operation of high-end hotels, villas, premium office buildings, international conference and exhibition centres and large theme parks, are subject to restrictions, and foreign investment in other property development is permitted. Under the new Foreign Investment Industrial Guidance Catalogue (外商投資產業指導目錄(2007年修訂)) jointly issued by the MOFCOM and the NDRC on 31 October 2007, effective as at 1 December 2007, foreign investment in the development and construction of ordinary units falls in the permitted category, whereas foreign investment in secondary market transactions in the real estate sector, the businesses of real estate intermediaries or agents and golf courses are the newly-added restricted areas for foreign investment in the real estate sector.

On 24 December 2011, the NDRC and the MOFCOM jointly issued the new Foreign Investment Industrial Guidance Catalogue (外商投資產業指導目錄(2011年修訂)), effective as at 30 January 2012, pursuant to which foreign investment in the construction and operation of villas was moved from the restricted category to the prohibited category.

On 10 March 2015, the NDRC and the MOFCOM jointly issued the new Foreign Investment Industrial Guidance Catalogue (外商投資產業指導目錄(2015年修訂)), effective as at 10 April 2015. Under the new foreign investment guidance catalogue, several changes have been introduced in relation to the real estate industry. For example, foreign investment in the development of a whole land lot, foreign investment in the construction and operation of high-end hotels, premium office buildings, international conference and/or exhibition centres, foreign investment in secondary market transactions, foreign investment in real estate intermediaries or agents now fall in the permitted category, whereas foreign investment in construction and operation of large theme parks is still subject to restrictions and foreign investors are prohibited from developing villas and golf courses.

On 28 June 2017, the NDRC and the MOFCOM jointly issued the new Foreign Investment Industrial Guidance Catalogue (外商投資產業指導目錄(2017年修訂)), effective as at 28 July 2017. Under the new foreign investment guidance catalogue, foreign investment in the construction and operation of the large theme parks, golf courses and villas are deleted from the restricted category and/or prohibited category.

The Foreign Investment Industrial Guidance Catalogue was partly replaced by Special Administrative Measures (Negative List) for Foreign Investment Access (外商投資准入特別管理措施(負面清單)), promulgated by the MOFCOM and the NDRC, effective on 28 July 2018, and amended on 30 June 2019 and was partly replaced by Industry Guidelines on Encouraged Foreign Investment (Year of 2019) (鼓勵外商投資產業目錄(2019年版)), promulgated by the MOFCOM and the NDRC, effective on 30 July 2019.

On 30 June 2019, the NDRC and MOFCOM promulgated the Special Administrative Measures for the Access of Foreign Investment (Negative List) (2020 version) (外商投資准入特別管理措施(負面清單)(2020年版)) (the “**2020 Negative List**”) with effect from 23 July 2020. The 2020 Negative List sets out the areas where foreign investment is prohibited and the areas where foreign investment is allowed only on certain conditions. Unless provided in other laws, foreign investment in areas not listed on the 2020 Negative List is permitted and treated equally with domestic investment.

On 11 July 2006, the Ministry of Construction, the MOFCOM, the NDRC, the PBOC, State Administration for Industry and Commerce of the People’s Republic of China (the “**SAIC**”) and SAFE promulgated and implemented the Opinion on Standardising the Admittance and Administration of Foreign Capital in the Real Estate Market (關於規範房地產市場外資准入和管理的意見). Under such opinion, when a foreign investor establishes a property development enterprise in China where the total investment amount is US\$10 million or more, such enterprise’s registered capital must not be less than 50 per cent. of its total investment amount. Foreign institutions which have no branches or representative offices in the PRC and foreign individuals who work or study in the PRC for less than one year are prohibited from purchasing any real property in the PRC. Furthermore, the admittance and administration of foreign capital in the property market must comply with the following requirements:

- foreign institutions or individuals who buy property not for their own use in China should follow the principle of Commerce Existence and apply for the establishment of a foreign-invested enterprise, pursuant to the regulations of foreign investment in property. After obtaining approval from the relevant authorities and upon completion of the relevant registrations, foreign institutions and individuals can then carry on their business pursuant to their approved business scope;
- where the total investment amount of a foreign-invested property enterprise is US\$10 million or more, its registered capital shall be no less than 50 per cent. of the total investment amount; where the total investment amount is less than US\$10 million, its registered capital shall follow the requirements of the existing regulations;
- for establishment of a foreign-invested property enterprise, the commerce authorities and the administration for industry and commerce take charge of the approval and registration of the foreign-invested property enterprise and the issuance of the Approval Certificate for a Foreign-Invested Enterprise and a Business License which are both valid for one year. Upon full payment of the land premium, the foreign-invested property enterprise should apply for a “Certificate of Land Use Rights”. With a Certificate of Land Use Rights, it can obtain a formal Approval Certificate for a Foreign-Invested Enterprise from the commerce authorities, and an updated Business License which will have the same approved business period with the formal Approval Certificate for Foreign-Invested Enterprise from the administration for industry and commerce;
- transfers of projects or shares in foreign-invested property enterprises or acquisitions of domestic property enterprises by foreign investors should strictly follow the relevant laws, regulations and policies and obtain the relevant approvals. The investor should submit: (i) a written undertaking of fulfilment of the “Contract for the State-owned Land Use Rights Grant”, the “Construction Land Planning Permit” and the “Construction Works Planning Permit”, (ii) a “Certificate of Land Use Rights”, (iii) documents evidencing the filing for modification with the construction authorities, and (iv) documents from the relevant tax authorities evidencing the payment of tax; and
- when acquiring domestic property enterprises by way of share transfer or otherwise, or purchasing shares from Chinese parties in Sino-foreign equity joint ventures, foreign investors should make proper arrangements for the employees, handle the debts of the banks and pay the transfer price in a lump sum and with its own capital. Foreign investors with bad records shall not be allowed to undertake the aforementioned activities in the PRC.

On 14 August 2006, the General Office of the MOFCOM enacted the Notice on Relevant Issues Concerning the Carrying Out the Opinion on Standardising the Admittance and Administration of Foreign Capital in the Real Estate Market (商務部辦公廳關於貫徹落實《關於規範房地產市場外資准入和管理的意見》有關問題的通知). According to the Notice, if the total investment of a foreign-invested property development enterprise exceeds US\$3 million, the registered capital must not be less than 50 per cent. of the total estimated investment; if the total investment is less than or equal to US\$3 million, the registered capital must not be less than 70 per cent. of the total estimated investment. When a foreign investor merges with a domestic property development enterprise by transferring equity or other means, the original employees of the merged companies must be settled down properly, bank debts must be settled and the entire consideration for the transfer must be paid off at one time with its own capital within three months after the issue of the business license. When a foreign investor purchases the equity from other Chinese shareholders of a foreign-invested property development enterprise, the original employees of the merged companies must be settled down properly, bank debts must be settled and the entire consideration for the transfer must be paid off at one time with its own capital within three months after the effective date of the equity transfer agreement.

On 23 May 2007, the MOFCOM and SAFE jointly issued the Notice on Further Strengthening and Regulating the Approval and Supervision on Foreign Investment in the Real Estate Sector in the PRC (商務部、國家外匯管理局關於進一步加強、規範外商直接投資房地產業審批和監管的通知), which was amended on 28 October 2015, stipulates the following requirements for the approval and supervision of foreign investment in real estate:

- foreign investment in the PRC real estate sector relating to high-grade properties should be strictly controlled;
- before obtaining approval for the setup of real estate entities with foreign investment, (i) both the land use rights certificates and housing ownership right certificates should be obtained or, (ii) contracts for obtaining land use rights or housing ownership rights should be entered into;
- entities which have been set up with foreign investment need to obtain approval prior to the expansion of their business operations into the real estate sector, and entities which have been set up for the purpose of real estate development operation need to obtain new approvals, in case they expand their real estate business operations;
- acquisitions of real estate entities and foreign investment in the real estate sector by way of round-trip investment should be strictly regulated. Foreign investors should not avoid approval procedures by changing actual controlling persons;
- parties to real estate entities with foreign investment should not in any way guarantee a fixed investment return;
- registration shall be immediately effected according to applicable laws with the MOFCOM regarding the setup of real estate entities with foreign investment approved by local PRC governmental authorities;
- foreign exchange administration authorities and banks authorised to conduct foreign exchange business should not effectuate foreign exchange settlements regarding capital account items to those who fail to file with the MOFCOM; and
- for those real estate entities who are wrongfully approved by local authorities for their setups, (i) the MOFCOM should carry out investigations and order punishment and corrections, and (ii) foreign exchange administrative authorities should not carry out foreign exchange registrations for them.

On 10 July 2007, the General Affairs Department of SAFE issued the Circular on Distribution of List of the First Group of Foreign-Invested Real Estate Projects Filed with the MOFCOM (國家外匯管理局綜合司關於下發第一批通過商務部備案的外商投資房地產項目名單的通知), which was repealed by Notice of State Administration of Foreign Exchange on Promulgation of the Provisions on Foreign Exchange Control on Direct Investments in China by Foreign Investors and Supporting Documents (國家外匯管理局關於印發《外國投資者境內直接投資外匯管理規定》及配套文件的通知), promulgated by SAFE (國家外匯管理局), effective on 13 May 2013, and amended on 10 October 2018. The afore-said regulation restricted the ability of foreign-invested real estate companies to raise funds offshore for the purposes of injecting such funds into the companies by way of shareholder loans. The notice stipulates, among other things, that:

- SAFE shall no longer process foreign debt registration or applications for purchase of foreign exchange to serve foreign debts for real estate enterprises with foreign investment who obtained authorisation certificates from and registered with the MOFCOM on or after 1 June 2007; and
- SAFE shall no longer process foreign exchange registrations (or change of such registrations) or applications for the sale and purchase of foreign exchange submitted by real estate enterprises with foreign investment who obtained approval certificates from local government commerce departments on or after 1 June 2007 but who had not registered with the MOFCOM.

On 18 June 2008, the MOFCOM promulgated Notice on Record of Foreign-invested Real Estate Enterprises (商務部關於做好外商投資房地產業備案工作的通知) that was effective on 1 July 2008 and repealed in 1 January 2020. This regulation aims to strictly supervise record materials, simplify registration procedures, improve work efficiency, and further promote the record registration. The notice stipulates, among other things, that:

- the MOFCOM shall authorise the provincial counterparts of commerce to supervise the record materials on foreign-invested real estate enterprises. After approval on foreign-invested real estate enterprises (including but not limited to incorporation of enterprises, increase of the registered capitals, transfer of equity interests, merger and acquisition), the competent commercial department shall present the relevant materials, which should be submitted to the MOFCOM for record, to the provincial counterparts of commerce for supervising;
- the provincial counterparts of commerce shall supervise the validity, authenticity and accuracy of the following materials pursuant to requirements as stated in the Circular On Standardizing the Admittance and Administration of Foreign Capital in the Real Estate Market (關於規範房地產市場外資准入和管理的意見) promulgated and implemented by the Ministry of Construction, the MOFCOM, the NDRC, the PBOC, the SAIC and SAFE on 11 July 2006, and the Notice On Further Strengthening and Regulating the Approval and Supervision On Foreign Investment in the Real Estate Sector in the PRC (商務部、國家外匯管理局關於進一步加強、規範外商直接投資房地產業審批和監管的通知) promulgated and implemented on 23 May 2007 and the relevant provisions, and amended on 28 October 2015;
- the provincial counterparts of commerce shall cooperate with other relevant provincial departments to supervise relevant materials pursuant to the relevant laws and regulations, then send the fulfilled Filing Form on Foreign-invested Real Estate Enterprises with the Stamp of the General Office of provincial government and the provincial counterparts of commerce to the MOFCOM for record files;

- the MOFCOM shall cooperate with other relevant departments of the State Council to supervise foreign-invested real estate enterprises (five to ten companies are selected at random quarterly). The provincial counterparts of commerce shall present materials of the selected companies to the MOFCOM within five working days of the notice being issued; and
- provided that the selected companies fail to pass such supervision, the MOFCOM shall notify SAFE to cancel their foreign exchange registration formalities and foreign investment statistics.

On 6 April 2010, the State Council issued the Opinions on Further Enhancing the Utilisation of Foreign Investment (國務院關於進一步做好利用外資工作的若干意見), which provide that, the projects with total investment (including capital increase) less than US\$300 million within the category of industries in which foreign investment is encouraged or permitted as listed in the Catalogue of Guidance on Industries for Foreign Investment, may be approved by local governments, except for those required to be approved by relevant departments of the State Council under the Catalogue of Investment Projects Approved by the Government.

On 10 June 2010, the MOFCOM issued the Notice Relating to Decentralising the Examination and Approval Power for Foreign Investment (商務部關於下放外商投資審批權限有關問題的通知), which was repealed on 1 Jan 2020. It stipulates that for establishment of a foreign invested enterprise with total investment of not more than US\$300 million under the Encouraged and Permitted Category and US\$50 million under the Restricted Category as specified in the Foreign Industrial Guidance Catalogue, the MOFCOM's branches at provincial level shall be in charge of examination and approval. While for establishment of a foreign invested enterprise with total investment of more than US\$300 million under the Encouraged and Permitted Category where there is no need of comprehensive balance review by the State, institutions for approval are at the local authority level.

According to the Administrative Measures for Approval and Record-filing of Foreign Investment Projects (外商投資項目核准和備案管理辦法) promulgated by the NDRC on 17 May 2014 and further revised on 27 December 2014, approval of the NDRC is required for foreign investment projects within the category of encouraged foreign investments with total investment amounting to US\$300 million or above, and projects within the category of foreign investments subject to restrictions (excluding real estate projects) with total investment amounting to US\$50 million or above. Real estate projects falling into the restricted category and other restricted projects with total investment (including capital increase) less than US\$50 million, as listed in the Foreign Investment Industrial Guidance Catalogue shall be approved by the provincial government. The encouraged projects requiring the PRC company holding (including relative shareholding) with total investment (including capital increase) less than US\$300 million, as listed in the catalogue for the guidance of foreign investment industries, shall be approved by the local government. The foreign investment projects other than those stated above shall be filed with the competent investment department of the local government for the record.

On 22 November 2010, the General Office of the MOFCOM issued the Notice on Strengthening Administration of Approval and Record of Foreign-invested Real Estate Industry (商務部辦公廳關於加強外商投資房地產業審批備案管理的通知), which aims to implement the relevant rules promulgated by the State Council and to ensure the sound effect of controls on the real estate industry. The MOFCOM addresses the following issues in that notice:

- the local department of commerce shall strengthen the supervision on the property projects with an inflow of foreign exchange. When reviewing the record materials, the local department of commerce shall focus on the re-check on the integrity of the documents relating to the land, including the materials to prove the transfer of land use right, such as the land use right transfer contract, and the land use right certificate;

- the local department of commerce shall, together with the local relevant authorities, strengthen the supervision on cross-border investment and financing activities, prevention of the risks arising from real estate market and control on the speculative investments. The PRC property enterprises established with offshore capital shall not conduct interest arbitrage activities by purchase or sale of the real estate property which is under construction or completed; and
- the local department of commerce shall further strengthen the approval, supervision and statistics verification of the establishment and/or capital increase of real estate enterprises by way of merger and acquisition, investment by equity and so on.

Foreign entities must establish foreign invested enterprises in the PRC as project companies to develop property. The typical scope of business of such project companies includes development, construction, sales, leasing and property management of commodity properties and ancillary facilities on the specific land as approved by the government. The term of the property development company may or may not be the same as the term of grant of the land use rights in question.

Establishment of a foreign-invested project company is subject to the approval by the relevant departments of the PRC government in accordance with the following procedures. First, a project application report is submitted to the central or local development and reform commission for verification and approval. If the development and reform commission considers the proposed property development project to be consistent with the prevailing national and local economic plans and foreign investment regulations, it will grant an approval to the applicant in respect of the project.

Once the project application report has been verified and approved, a joint feasibility study report is prepared that reflects the investor's assessment of the overall economic viability of the proposed project company. The feasibility study report and/or articles of association may then be submitted to the MOFCOM, or its local counterpart, as the case may be, for approval. If the MOFCOM or its local counterpart finds the application documents to be in compliance with PRC law, it will issue an approval certificate for the establishment of the project company. With this approval certificate, the investor can apply to the local administration for industry and commerce for a foreign invested enterprise business license for the project company.

On 24 June 2014, the MOFCOM and SAFE jointly issued the Notice on Improving the Registration of Foreign Investment in Real Estate (關於改進外商投資房地產備案工作的通知) (repealed on 1 January 2020) to simplify the procedures of registration of foreign investment in real estate. On 11 November 2015, the MOFCOM and SAFE jointly issued the Circular on Further Improving the Record-filing for Foreign Investments in Real Estate (關於進一步改進外商投資房地產備案工作的通知) (repealed on 1 January 2020.) to cancel the online record filing-procedure maintained by the MOFCOM.

On 19 August 2015, MOHURD and other authorities jointly promulgated the Circular on Adjusting Policies on the Market Access and Administration of Foreign Investment in the Real Estate Market (關於調整房地產市場外資准入和管理有關政策的通知), which removed the special requirement of ratio of registered capital to total investment imposed on foreign invested real estate enterprise (“**FIREE**”). The Circular further removed the requirement that the registered capital of FIREEs shall be paid in full before such FIREE may apply for domestic loans or offshore loans.

According to the Decision of Amending Four Laws including the Wholly Foreign-owned Enterprises Law of the PRC (全國人民代表大會常務委員會關於修改《中華人民共和國外資企業法》等四部法律的決定) promulgated by the Standing Committee of the NPC on 3 September 2016, the establishment of foreign-invested enterprise and its subsequent changes should be filed with relevant authorities instead of obtaining approvals from relevant commerce authorities, except for the foreign-invested enterprise which is subject to the special administrative measures regarding foreign investment. The Provisional Measures

for Filing Administration of Establishment and Changes of Foreign-Invested Enterprises (外商投資企業設立及變更備案管理暫行辦法), which was promulgated by the MOFCOM on 8 October 2016, and amended on 30 July 2017 and 29 June 2018, further detailed the relevant filing procedures.

On 30 December 2019, MOFCOM and State Administration for Market Regulation promulgated Measures on Reporting of Foreign Investment Information, effective on 1 January 2020, replaced the Provisional Measures for Filing Administration of Establishment and Changes of Foreign-Invested Enterprises (外商投資企業設立及變更備案管理暫行辦法).

Qualifications of a Real Estate Development Enterprise

Under the Provisions on Administration of Qualifications of Property Developers (房地產開發企業資質管理規定) (the “**Provisions on Administration of Qualifications**”) promulgated by the Ministry of Construction on 1 December and amended on 29 March 2000 and 4 May 2015 and 22 December 2018, a property developer shall apply for registration of its qualifications. An enterprise may not engage in development and sale of property without a qualification classification certificate for property development. The construction authority under the State Council oversees the qualifications of property developers throughout the country, and the property development authority under a local government on or above the county level shall oversee the qualifications of local property developers.

In accordance with the Provisions on Administration of Qualifications, property developers are classified into four classes. Different classes of qualification should be examined and approved by corresponding authorities. The class 1 qualifications shall be subject to preliminary examination by the construction authority under the government of the relevant province, autonomous region or municipality directly under the central government and then final approval of the construction authority under the State Council. Procedures for approval of developers of class 2 or lower qualifications shall be formulated by the construction authority under the government of the relevant province, autonomous region or municipality directly under the central government. A developer that passes the qualification examination will be issued a qualification certificate of the relevant class by the qualification examination authority.

Under the Development and Operation Regulations, the property development authorities shall examine applications for registration of qualifications of a property developer when it reports its establishment, by considering its assets, professional personnel and business results. A property developer shall only undertake property development projects in compliance with the approved qualification registration.

After a newly established property developer reports its establishment to the property development authority, the latter shall issue a Provisional Qualification Certificate to the eligible developer within 30 days of its receipt of the above report. The Provisional Qualification Certificate shall be effective one year from its issuance, while the property development authority may extend the validity to a period of no longer than two years considering the actual business situation of the enterprise. The property developer shall apply for qualification classification by the property development authority within one month before expiry of the Provisional Qualification Certificate.

A developer of any qualification classification may only engage in the development and sale of property within its approved scope of business and may not engage in business which is limited to another classification. A class 1 property developer is not restricted as to the scale of property project to be developed and may undertake a property development project anywhere in the country. A class 2 property developer or lower may undertake a project with a GFA of less than 250,000 sq.m. and the specific scope of business shall be as confirmed by the construction authority under the government of the relevant province, autonomous region or municipality. Pursuant to the Provisions on Administration of Qualifications, the qualification of a property developer shall be inspected annually. The construction authority under the State Council or its authorised institution is responsible for the annual inspection of

a class 1 property developer’s qualification. Procedures for annual qualification inspection with developers of class 2 or lower shall be formulated by the construction authority under the people’s government of the relevant province, autonomous region or municipality.

The Land System of the PRC

Overview

All land in the PRC is either state-owned or collectively-owned, depending on the location of the land. All land in the urban areas of a city is state-owned, and all land in the rural and suburban areas is, unless otherwise specified by law, collectively-owned. The state has the right to resume its ownership of land or the right to use land in accordance with law if required for the public interest. Although all land in the PRC is owned by the state or by collectives, individuals and entities may obtain land use rights and hold such land use rights for development purposes or transfer their interests to other parties. Individuals and entities may acquire land use rights in different ways, the two most important being land grants from local land authorities and land transfers from land users who have already obtained land use rights.

Grants of Land Use Rights

National and Local Legislation

On 12 April 1988, the Constitution of the PRC (中華人民共和國憲法) was amended by the NPC to allow for the transfer of land use rights for value. On 29 December 1988, the Land Administration Law (中華人民共和國土地管理法) of the PRC was amended to permit the transfer of land use rights for value. On 19 May 1990, the State Council enacted the Provisional Regulations of the PRC Concerning the Grant and Assignment of the Right to Use State-owned Land in Urban Areas (中華人民共和國城鎮國有土地使用權出讓和轉讓暫行條例). These regulations, generally referred to as the Urban Land Regulations, formalised the process of the grant and transfer of land use rights. The Urban Land Regulations prescribe different maximum periods of grant for different uses of land as follows:

<u>Use of land</u>	<u>Maximum period (years)</u>
Commercial, tourism and entertainment	40
Residential	70
Industrial	50
Educational, scientific, cultural, public health and sports	50
Comprehensive utilisation or others	50

Under the Urban Land Regulations, domestic and foreign enterprises are permitted to acquire land use rights unless the relevant laws provide otherwise. The State may not resume possession of lawfully-granted land use rights prior to expiration of the term of grant. If the public interest requires the resumption of possession by the State under special circumstances during the term of corresponding grant, compensation may be paid by the State. Subject to compliance with the terms of the land grant contract, a holder of land use rights may exercise substantially the same rights as a land owner during the grant term, including holding, leasing, transferring, mortgaging and developing the land for sale or lease.

Upon paying in full the land grant fee pursuant to the terms of the contract, the grantee may apply to the relevant land bureau for issuance of the land use rights certificate. Upon expiration of the term of grant, renewal is possible subject to the execution of a new contract for the grant of land use rights and payment of a new land grant fee. If the term of the grant is not renewed, the land use rights and ownership of any buildings on the land will revert to the State without compensation.

The Real Property Law of the People's Republic of China (中華人民共和國物權法, the “**Real Property Law**”), adopted by the NPC on 16 March 2007 and effective as at 1 October 2007, further clarified land use rights in the PRC with the following rules:

- land use rights for residences will be automatically renewed upon expiry;
- car parking spaces and garages within residential buildings must first be used to meet the needs of the owners who live in the building;
- the construction of buildings must comply with relevant laws and regulations and must not affect the ventilation or lighting of neighbouring buildings; and
- where the land use rights for construction use are transferred, exchanged, used as a capital contribution, donated to others or mortgaged, an application for modification registration must be filed with the registration department.

In addition to the general framework for transactions relating to land use rights set out in the Urban Land Regulations, local legislation provides for additional requirements, including those applicable to specific transactions within specific areas relating to the grant and transfer of land use rights. These local regulations are numerous and some of them are inconsistent with national legislation. Under PRC law, national laws and regulations prevail to the extent of such inconsistencies.

Methods of Land Grant

There are two methods by which land use rights may be granted, namely by private agreement or competitive processes (i.e., tender, auction or listing at a land exchange administered by the local government).

The MLR has required since 1 July 2002 in the Regulations on Assignment of State-owned Land Use Right through Bidding, Auction and Quotation (招標拍賣掛牌出讓國有土地使用權規定) promulgated on 9 May 2002, which was subsequently amended by the Regulations on Assignment of State-owned Construction Land Use Right through Bidding, Auction and Quotation (招標拍賣掛牌出讓國有建設用地使用權規定) effective on 1 November 2007 issued by the MLR, that the grant of land use rights must be made pursuant to public tenders, auctions or listings for sale on a land exchange and that no land use rights for commercial uses could be granted by way of private agreement. PRC laws and regulations specifically provide that land to be used for commercial purposes, except land for mining, must be granted by way of competitive processes. A number of measures are provided by PRC laws and regulations to ensure such grant of land use rights for commercial purposes is conducted openly and fairly. For instance, the local land bureau must take into account various social, economic and planning considerations when deciding on the use of a certain piece of land, and its decision regarding land use designation is subject to approval by the city or provincial government. In addition, the announcement of a public tender, auction or listing for sale at a land exchange must be made 20 days prior to the date of beginning such competitive processes. Furthermore, it is also stipulated that for listing at a land exchange, the time period for accepting bids must not be less than 10 days.

When land use rights are granted by way of tender, a bid evaluation committee consisting of not fewer than five members (including a representative of the grantor and other experts) formed by the land bureau is responsible for evaluating the bids and the tenderee is responsible for deciding on the successful bidder. The successful bidder will then sign the land grant contract with the land bureau and pay the balance of the land-grant fee before obtaining the State land use rights certificate and the land bureau effecting registration of the successful bidder as the holder of land use rights for the land. See “— Documents of Title and Registration of Property Interests”. The land bureau will consider the following factors: if the invitation to tender only requires a bid from the bidder, whoever offers the highest

bid will be the successful bidder; or if the invitation to tender requires the bidder to submit planning proposals in addition to the bid, then details of the proposals will be considered. If the relevant land bureau considers that none of the bids is satisfactory, the land bureau has the right to reject all the bids.

Where land use rights are granted by way of auction, a public auction will be held by the relevant local land bureau. The land use rights are granted to the highest bidder. The successful bidder will then be asked to sign the land grant contract with the local land bureau and pay the relevant land grant fee within a prescribed period. Tenders for land use rights can be by way of open tenders or private tenders.

Where land use rights are granted by way of listing at a land exchange administered by the local government, a public notice will be issued by the local land bureau to specify the location, area and purpose of use of land and the initial bidding price, period for receiving bids and terms and conditions upon which the land use rights are proposed to be granted. The land use rights are granted to the bidder with the highest bid who satisfies the terms and conditions. The successful bidder will enter into a land grant contract with the local land bureau and pay the relevant land grant fee within a prescribed period.

On 1 April 2017, MOHURD and the MLR jointly issued the Circular of Relevant Work on Strengthening the Recent Administration and Control of Housing and Land Supply (關於加強近期住房及用地供應管理和調控有關工作的通知), which provides, among others, that local authorities should adopt examination and approval procedure to ensure that property developers use legitimate self-owned funds to acquire lands.

Model Land Grant Contract

To standardise a land grant contract, on 29 April 2008, the MLR and the SAIC re-issued a model land grant contract (the “**land grant contract**”) in the Notice on Publishing the Model Text of the Land Grant Contract (關於發佈《國有建設用地使用權出讓合同》示範文本的通知), upon which many local governments have formulated their respective local form of land grant contracts to suit their specific local circumstances. The new model land grant contract contains terms such as serial number of land, location of land, area of land, use of land, conditions of land upon delivery, term of grant, land grant fee and its payment schedule, registration of land, intensity of land investment, land use conditions and restrictions (including GFA, building plot ratio, greenbelt ratio and height and density limitations), construction of public facilities, auxiliary construction, deadline for commencement of construction, deadline for completion of construction, payment of idle fees, application for extension of the stipulated construction period, restrictions on transfer, rent and mortgage of land use rights, application of renewal, force majeure, breach of contract and dispute resolution.

For the land grant contracts for residential properties, the development terms in principle must not exceed 3 years. If the developer fails to launch or complete the construction projects within the dates specified in the land grant contracts or the dates otherwise agreed upon for the delayed construction, for each postponed day, they must pay penalties. In addition, the developer must use the land in line with the land usage and plot ratios specified in the land grant contracts.

If a land user wishes to change the specified use of land after the execution of a land grant contract, approvals must first be obtained from the relevant land bureau and the relevant urban planning department, and a supplemental agreement or a new land grant contract may have to be signed and the land grant fee may have to be adjusted to reflect the added value of the new terms of use. Registration procedures must be carried out after payment of the added value.

Idle Land

According to the Urban Real Estate Law, where a real property development is carried out on land for which the land use rights are acquired by means of grant, the land must be developed in line with the specified use for the land and the deadline for commencement of development set out in the land grant contract. Where the development does not commence within one year from the specified date set out in the land grant contract, an idle land fee may be charged at a rate equivalent to not more than 20 per cent. of the relevant land premium. Where the development does not commence within two years from the specified date, the relevant land use rights may be withdrawn without compensation, except where the commencement of construction is delayed due to force majeure, an act of the government or relevant government departments, or delays in preliminary work necessary for the commencement of development.

According to the Measures on Disposing of Idle Land (閒置土地處置辦法) promulgated and implemented by the MLR on 28 April 1999, and as amended on 1 June 2012, a parcel of land can be defined as idle land under any of the following circumstances:

- the development of and construction on the land have not begun after a period of one year from the construction commencement date stipulated in the contract on compensatory usage of “State-owned construction land”, or in the “Approval Letter on Land Allocation”; or
- the development of and construction on the land has begun, but the area under construction is less than one third of the total area to be developed or the invested amount is less than 25 per cent. of the total amount of investment; and the development and construction have been continuously suspended for more than one year.

The municipality or county-level municipality administrative authority shall, with regard to an identified piece of idle land, give notice to the land user containing proposals on dealing with the idle land, including, (1) extending the time period for development and construction (provided that it shall not be longer than one year); (2) changing the use and planning conditions of the land, and require the land user to fulfil the relevant procedures for the new use or planning; (3) arranging for temporary use for a period not longer than two years; (4) reaching a buy-back agreement with the land user; (5) arranging for replacement land for the land user if the delay of construction is due to planning changes by the administrative authority or (6) other measures proposed and implemented by the municipality or county-level municipality administrative authority based on the particular situation.

With respect to land which is obtained by assignment and which is within the scope of city planning, if the construction work has not yet started after one year after the date stipulated in the assignment contract, a fine for idle land equivalent to 20 per cent. of the assignment price may be imposed on the land user. If the construction work has not yet begun after two years, the right to use the land may be forfeited by the State without any compensation. However, the above sanctions will not apply when the delay in commencement of construction is caused by force majeure or non-performance by the government or military control or preservation of cultural relics or other acts of government.

On 8 September 2007, the MLR promulgated the Notice on Strengthening the Disposing of Idle Land (關於加大閒置土地處置力度的通知) providing that the land subject to transfer shall be made ready for development before its transfer. The notice also prescribes that the State-owned land use rights certificate shall not be issued before the land grant premium has been paid in full, nor be issued separately according to the ratio of payment of land grant premium.

The Notice to Enhance the Economical and Intensive Use of Land (關於促進節約集約用地的通知) promulgated by the State Council on 3 January 2008 urges the full and effective use of existing construction land and the preservation of farming land and emphasises the enforcement of the current rules

on idle land fee for any land left idle for over one year but less than two years, with such idle land fee charged at 20 per cent. of the land grant premium, as well as for land left idle for more than two years, with such idle land forfeited without compensation.

Pursuant to the Notice on Resolutely Curbing the Rapid Rising of Housing Prices in Certain Cities (關於堅決遏制部分城市房價過快上漲的通知) promulgated by the State Council on 17 April 2010 which became effective on the same date, commercial banks shall not grant loans to real estate development enterprises that idle land or speculate in land for the development of new projects, and the securities regulatory departments may suspend the approvals of listing, refinancing or significant asset restructuring of such enterprises.

Termination

Pursuant to the Real Property Law promulgated by the NPC on 16 March 2007, effective on 1 October 2007, when the term of the right to use land for construction of dwelling houses expires, it shall be renewed automatically. The term of the right to use land not for construction of dwelling houses shall be handled in accordance with laws.

The State generally will not withdraw a land use right before the expiration of its term of grant and if it does so for special reasons, such as in the public interest, it shall offer proper compensation to the houses and other realties on such land, and corresponding land grant fees shall be returned back, having regard to the surrounding circumstances and the period for which the land use right has been enjoyed by the land user.

If the land not for dwelling houses is expired and the land user has not applied for extension or, the application for extension has not been approved, the land use right and ownership of the related buildings erected on the land and other attachments will be acquired by the state without compensation. The land user will take steps to surrender the land use rights certificate and cancel the registration of the certificate in accordance with relevant regulations.

The land user may apply for renewal of the land use rights at least one year before expiry of the term and, if the application is granted, the land user is required to enter into a new land grant contract, pay a land grant fee and effect appropriate registration for the renewed land grant.

Land Transfers from Current Land Users

In addition to a direct grant from the government, an investor may also acquire land use rights from land users that have already obtained the land use rights by entering into an assignment contract or a joint venture development agreement with the land user. The assignment contract or joint venture development agreement must be registered with the relevant local land bureau at the municipal or county level. Upon a transfer of land use rights, all rights and obligations contained in the land grant contract are deemed incorporated as part of the terms and conditions of such transfer. Certain domestic PRC individuals or entities enjoy the right to use land allocated by the State without payment of any consideration for an indefinite period of time. This type of land use rights is generally referred to as an allocated land use right. The Urban Land Regulations state that assignment, lease or mortgage of allocated land use rights in urban areas and any buildings or attachments situated on the land is subject to the approval of the relevant land and real estate administrative departments. The conditions for approval include the following:

- the existing land user must be an individual or a company, enterprise or other economic organisation;
- the existing land user must hold a State land use rights certificate and the relevant ownership certificates for the buildings and attachments;

- a formal land grant contract must be entered into with the relevant land department; and
- the land grant fee must be paid or such payment may be made from the proceeds of such assignment, lease and mortgage.

The assignment contract or the joint venture development agreement is subject to terms and conditions specified in the land grant contract. For residential construction projects, PRC law requires that at least 25 per cent. of total construction costs have been expended before assignment can take place. A higher minimum construction and investment fee may be provided in land grant contracts entered into between the local land administration bureau and the land user. All rights and obligations of the current holder under a land grant contract will be transferred contemporaneously to the assignee of the land use rights. The relevant local government has the pre-emptive right to acquire the land use rights to be assigned if the assignment price is significantly lower than the market price. The State shall not withdraw before the expiration of the term of use the right to the use of the land which the land user acquired in accordance with the law. Under special circumstances, the State may, based on the requirements of social public interests, withdraw the right before the expiration of the term of use in line with the relevant legal procedures and shall, based on the number of years in which the land user has used the land and actual state of affairs with respect to the development and utilisation of the land, offer corresponding compensation.

Relocation of Original Residents

On 30 August 2007, the Standing Committee of NPC promulgated the revised Urban Real Estate Law (城市房地產管理法) which took effect on the same day, amended on 27 August 2009 and 26 August 2019. The law stipulates that the State, for public benefit, can take back state-owned land and/or the premises, owned by enterprises or individuals, built on state-owned land. The local PRC Government will provide the enterprises or individuals with compensation for the return of the state-owned land and/or the demolition. Where the land to be developed comprises land on which buildings have been erected and/or is occupied, we are required to compensate and relocate original residents before demolition and site clearance can be carried out. As specified in our land grant contracts, either the land authorities or our project companies are responsible for relocating existing residents and demolishing existing structures on the project sites. In cases where we are responsible for relocation, we are required to compensate the owners or residents of existing buildings on land to be developed for relocation in accordance with the Regulation on the Dismantlement of Urban Houses (城市房屋拆遷管理條例) implemented on 1 November 2001 by the State Council. But these administration rules have been abolished in compliance with the Building on State-owned Land Expropriation and Compensation Regulation (國有土地上房屋徵收與補償條例) promulgated by the State Council on 21 January 2011 (the “**Expropriation and Compensation Regulation**”).

The Expropriation and Compensation Regulation is formulated for purposes of regulating the expropriation of buildings on state-owned land and corresponding compensation, maintaining public interests and protecting the legitimate rights and interests of owners of the buildings to be expropriated, and it provides that, among other things:

- where a building of any entity or individual on state-owned land is expropriated for public interest, the owner of the expropriated building (the “**owner**”) shall be fairly compensated, and the principle of “democratic decision-making, due process and open results” shall be followed in the building expropriation and compensation;
- a building of any entity or individual on state-owned land can only be expropriated under the certain circumstances for public interest, and the governmental authorities are the sole entities who can be in charge of resettlement activities; the real estate developers are prohibited from being involved in the relevant procedures for building demolition and relocation;

- the compensation to the owner shall be paid before the resettlement, and cannot be less than the market value of similar properties at the time of expropriation. The market values of properties shall be assessed by qualified real estate assessment agencies according to the assessment rules for property expropriation. The owner who disagree with the assessed value of property can apply for a re-assessment; and
- neither violence nor coercion may be used to force the owner to leave the property sites, nor can certain measures, such as illegally cutting off water and/or power supplies, be used in demolition and relocation procedures.

In order to prevent illegal demolition and removal, and overheating investment in some areas, the General Office of the State Council promulgated the Notice on Controlling the Scale of Demolition and Removal and Strengthening Administration of Demolition and Removal (關於控制城鎮房屋拆遷規模嚴格拆遷管理的通知) on 6 June 2004, repealed on 27 November 2015. The notice addresses issues including, but not limited to, the following: (i) strictly controlling the area of demolition and removal to ensure that the total area of demolition and removal is less than that of the previous year; (ii) strictly administering the procedures of demolition and removal, such procedures to be carried out in an open, fair and just manner; (iii) strengthening the supervision and administration of the compensation costs incurred for the demolition and removal, and ensuring the completion of the relocation; and (iv) strictly punishing certain illegal actions in relation to the demolition and removal. The notice has been abolished by the State Council according to the Decision of the State Council on Announcing the Invalidation and Abolishment of a Batch of Documents Issued by the State Council (國務院關於宣佈失效一批國務院文件的決定) on 27 November 2015.

The Measures of Expropriation and Evaluation of Properties on State-owned (國有土地上房屋徵收評估辦法), which was promulgated by MOHURD and implemented on 3 June 2011, provides that, among other things:

- the value of the expropriated property is the sum would have been reached by informed and willing parties in arm's length transaction, excluding factors such as lease, pledge and seizure;
- the market value of the property for exchanging the expropriated property shall be determined by evaluation. The benchmark date of evaluation of the expropriated property is the date when the property expropriation decision is posted; and
- the evaluation of expropriated property shall consider location, property use, construction structure, condition, building area, floor area, land use right and other factors that might affect the value of the property. The value of interior decoration, relocation fee for machinery equipment and materials and compensation for halting the production and business through negotiation by relevant parties; if the parties fail to reach such an agreement, the value may be determined by evaluation conducted by a real estate evaluation institution appointed by the parties.

Documents of Title and Registration of Property Interests

A land use rights certificate is the evidentiary legal document to demonstrate that the registered land user has the lawful right to use the land during the term stated in the land use rights certificate. Upon the completion of construction of a building (including passing the acceptance tests by various government departments), a building ownership certificate will be issued to the owner of the building. The holder of a land use right who is issued a building ownership certificate holds the land use rights and owns the building erected on the land. All holders of land use rights, and other rights with respect to the land, such as the right to buildings erected on the land, must register all their lawful state-owned land use rights, as well as ownership rights to the buildings. In this regard, real estate registries have been established in all cities in China. In most cities, there are separate registries for land use rights and buildings. In places

where there are separate registries, the holder of a land use right will be issued a building ownership certificate for its ownership of the building and a land use rights certificate for its land use rights in the underlying land. According to the Land Registration Regulations (國家土地管理局土地登記規則) promulgated by the State Land Administration Bureau (國家土地管理局) on 18 December 1995 and implemented on 1 February 1996, the Land Registration Measures (土地登記辦法) promulgated by the MLR on 30 December 2007 and effective on 1 February 2008, and the Building Registration Measures (房屋登記辦法) promulgated by MOHURD on February 2008 and effective on 1 July 2008, repealed on 29 December 2017, land use rights and building ownership rights which are duly registered are protected by law.

Whether the registered land user can assign, mortgage or lease the land use rights will be subject to conditions stipulated in the original land grant contract. In addition to the requirement to register land use rights, there is also a requirement to register a mortgage of a land use right in local land registration departments. See “— Mortgage and Guarantee”.

The Interim Regulations on Real Estate Registration (不動產登記暫行條例) was promulgated by the State Council on 24 November 2014 and came into effect on 1 March 2015, amended on 24 March 2019. The MLR promulgated the Notice of the Ministry of Land and Resources on Implementing the Interim Regulations on Real Estate Registration (國土資源部關於貫徹實施《不動產登記暫行條例的通知》) on 29 December 2014. The new rules require the establishment of a unified registration system for real estate and creation of an information platform to manage the data. In addition to buildings, the new rules also cover land, maritime property and forests. The MLR is responsible for monitoring property registration overall, while local governments will set up institutions to implement the process. In places where the institutional integration has not been completed, the original documents of title will be issued until the authorizing institutions complete the integration. No PRC government agencies may compel a real estate owner which has obtained the original document of title to apply for the new document of title and the original document of title will remain valid during its validity period.

Mortgage and Guarantee

The mortgage of real property in the PRC is governed by the Security Law of the PRC (中華人民共和國擔保法) (the “**Security Law**”) promulgated by the NPC on 30 June 1995 and implemented on 1 October 1995, the Measures for Administration of Mortgages of Urban Real Estate (城市房地產抵押管理辦法) promulgated by the Ministry of Construction on 1 June 1997 and amended on 15 August 2001, the Real Property Law adopted by the NPC on 16 March 2007 and effective as at 1 October 2007, and other relevant real estate-related laws and regulations. A real property mortgage agreement must be in writing and must contain specific provisions including (i) the type and amount of the indebtedness secured, (ii) the period of the obligation by the debtor, (iii) the name, quality, quantity, conditions, location, ownership or use right of the mortgaged property, and (iv) the scope of security. Pursuant to the Real Property Law, buildings newly-erected on a piece of urban land after a mortgage contract has been entered into shall not constitute mortgaged property. If the mortgaged property is auctioned off, the new buildings added on the land may be auctioned together with the mortgaged property, but the mortgagee shall not be entitled to priority compensation from the proceeds of the auction of the new buildings.

Pursuant to the Security Law, a real property mortgage contract becomes effective on the date of registration with the local real property department. When carrying out mortgaged property registration, the loan contract and the mortgage contract as well as the land use rights certificate or the building ownership certificate with respect to the mortgaged property must be submitted to the registration authority. If the mortgagor cannot repay the loan that is secured by the mortgaged property, the mortgagee may agree with the mortgagor to receive payment by evaluating the mortgaged property in terms of money or through the proceeds of the auction or selling off the property. If no such agreement is reached, the mortgagee may institute proceedings in a People’s Court. After the mortgaged property has been evaluated in terms of value or been auctioned or sold off, any portion of the proceeds that exceeds the amount of the indebtedness shall belong to the mortgagor and any shortfall shall be paid by the mortgagor.

The Security Law also contains comprehensive provisions dealing with guarantees. Under the Security Law, guarantees may be in two forms: (i) general guarantees whereby the guarantor bears the liability when the debtor fails to perform the payment obligation; and (ii) guarantees with joint and several liability whereby the guarantor and debtor are jointly and severally liable for the payment obligation. A guarantee contract must be in writing and, unless agreed otherwise, the term of a guarantee shall be six months after the expiration of the term for performance of the principal obligation. The Security Law further provides that where indebtedness is secured by both a guarantee and by mortgaged property, the guarantor's liability shall be limited to the extent of the indebtedness that is not secured by the mortgaged property.

Property Development

Property development projects in the PRC are generally divided into single projects and large tract development projects. A single project refers to the construction of buildings on a plot of land and the subsequent sale or leasing of units. Large tract development projects consist of the comprehensive development of large areas and the construction of necessary infrastructure such as water, electricity, road and communications facilities in order to create the conditions for industrial or other construction purposes. Thereafter, the developer may either assign the land use rights of the developed area or construct buildings on the land itself and sell or lease the buildings erected on it.

According to the PRC Urban-rural Planning Law (中華人民共和國城鄉規劃法) promulgated by the Standing Committee of the NPC on 28 October 2007 and implemented on 1 January 2008, and amended on 23 April 2019, the Measures on the Planning of Grant of State-owned Urban Land Use Rights (城市國有土地使用權出讓轉讓規劃管理辦法) promulgated by the Ministry of Construction on 4 December 1992 and implemented on 1 January 1993, and the Notice on Strengthening the Management of Planning of Grant of State-owned Land Use Rights (建設部關於加強國有土地使用權出讓規劃管理工作的通知) promulgated by the Ministry of Construction and implemented on 26 December 2002 and repealed on 18 February 2016, real estate developers shall apply for the construction land planning permit from the relevant municipality or county urban-rural planning authority by submitting the contract of grant of state-owned land use rights, the approval and registration certificates after signing the contract of grant of state-owned land use rights. A construction enterprise or individual shall apply for the construction land planning permit at the relevant municipality or county urban-rural planning authority before commencing the construction of buildings, structures, roads, pipes or other construction works. According to the Measures on Permission of Construction Works (建築工程施工許可管理辦法) promulgated by MOHURD on 25 June 2014, and amended on 28 September 2018, which supersedes the original regulations issued by the Ministry of Construction on 15 October 1999 and amended and implemented on 4 July 2001, after obtaining the construction land planning permit the real estate developer shall apply for and obtain the construction land works permit at the relevant construction authority of the government above the county level, except for the construction projects with the investment below CNY300,000 or GFA below 300 sq.m. The local counterpart of MOHURD may adjust the above-listed criteria based on the local circumstance. Failure to obtain the construction land works permit for any real property project as required by law will result in prohibition of commencement of the construction work.

A property project developed by a property developer shall comply with the relevant laws and other statutes, requirements on construction quality, safety standards and technical guidance on survey, design and construction work, as well as provisions of the relevant contract. After completion of works for a project, the property developer shall organise a “four-party” inspection, request and receive inspections from the competent planning, fire-prevention, environmental, public security, construction and other authorities, and request and receive inspection on construction completion (竣工備案) from the local construction committee according to the Regulations on the Administration of Quality of Construction Works (建設工程質量管理條例) promulgated and implemented by State Council on 30 January 2000 and amended on 23 April 2019, and the Interim Provisions on Acceptance Examination Upon Completion of Buildings and Municipal Infrastructure (房屋建築工程和市政基礎設施工程竣工驗收規定) promulgated by MOHURD on 2 December 2013, the Administrative Measures for Reporting Details Regarding

Acceptance Examination Upon Completion of Buildings and Municipal Infrastructure (房屋建築和市政基礎設施工程竣工驗收備案管理辦法) promulgated by the Ministry of Construction on 4 April 2000 and as amended on 19 October 2009 and other relevant Chinese laws and regulations. A property development project may only be delivered after passing fire, quality and other the necessary inspections, and may not be delivered before the relevant certificates have been obtained following such inspections. For a housing estate or other building complex project, an acceptance examination shall be conducted upon completion of the whole project and where such a project is developed in phases, an acceptance examination may be carried out for each completed phase.

Environmental Protection

The laws and regulations governing the environmental requirements for real estate development in the PRC include the Environmental Protection Law (中華人民共和國環境保護法) promulgated by the Standing Committee of the NPC and effective on 26 December 1989 and amended on 1 January 2015, the Prevention and Control of Noise Pollution Law (中華人民共和國環境噪聲污染防治法) promulgated by the Standing Committee of the NPC on 29 October 1996 and effective 1 March 1997 and amended on 29 December 2018, the Environmental Impact Assessment Law (中華人民共和國環境影響評價法) promulgated by the Standing Committee of the NPC on 28 October 2002 and effective 1 September 2003 and amended on 2 July 2016 and 29 December 2018, and the Administrative Regulations on Environmental Protection for Development Projects (建設項目環境保護管理條例) promulgated by the State Council and effective on 29 November 1998 and amended on 16 July 2017 and became effective on 1 August 2017, and the Administrative Measures on the Environmental Protection of Acceptance upon Completion of Construction Projects (建設項目竣工環境保護驗收管理辦法) promulgated on 27 December 2001, implemented on 1 February 2002 by the State Environmental Protection Administration (the predecessor of the Ministry of Environmental Protection) and subsequently amended by the Ministry of Environmental Protection on 22 December 2010.

Pursuant to these laws and regulations, depending on the impact of the project on the environment, an environmental impact study report, an environmental impact analysis table or an environmental impact registration form must be submitted by a developer before the relevant authorities will grant approval for the commencement of construction of the property development. In addition, upon completion of the property development, the relevant environmental authorities will also inspect the property to ensure compliance with the applicable environmental standards and regulations before the property can be delivered to the purchasers.

Pre-sales and Sales

Commodity premises can be sold before or after their completion. These sales are regulated and conducted in accordance with the provisions of the Regulations for the Administration of Sale of Commodity Premises (商品房銷售管理辦法) (the “**Sales Regulations**”) promulgated by the Ministry of Construction on 4 April 2001, the Measures for the Administration of Pre-sale of Commodity Premises (城市商品房預售管理辦法) (the “**Pre-sales Measures**”), promulgated, implemented on and amended by the Ministry of Construction on 15 November 1994, 15 August 2001 and 20 July 2004, respectively, and in accordance with the Development and Operation Regulations.

For units of a commodity building sold before completion (a “**Pre-sale**”) to occur under the Pre-sale Measures, a developer must make the necessary pre-sale registration with the real estate development authority of the relevant city or county and obtain a pre-sale permit. A Pre-sale will take place if:

- the premium fee in respect of the land use rights has been paid in full and the land use rights certificate has been obtained;
- the construction works planning permit and the construction project commencement permit have been obtained;

- at least 25 per cent. of the total amount of the project investment fund has been injected into the development of the project and the progress of construction and the expected completion date of the project has been ascertained; and
- the pre-sale permit has been obtained.

The Ministry of Construction, the NDRC jointly promulgated the Notice on Further Rectifying the Trade Order of Real Estate (關於進一步整頓規範房地產交易秩序的通知) on 6 July 2006. The purpose of this notice is to strengthen the regulation over the pre-selling of real estate. The notice provides that real estate development enterprises shall sell commodity residential properties within 10 days after obtaining the pre-sale permit. The notice was abolished by MOHURD on 26 January 2011.

On 13 April 2010, MOHURD issued the Notice on Further Strengthening on Real Estate Market Supervision and Improvement of the Commercial Housing Pre-sale System (關於進一步加強房地產市場監管完善商品住房預售制度有關問題的通知). It stipulates that:

- property developers shall not charge the purchaser earnest or advance money in forms of subscription, order or grant of VIP card in relation to the project for which it has not obtained the pre-sale permits;
- property developers shall disclose all housing that is permitted to be sold at one time and the price of each housing unit within 10 days after obtaining the pre-sale permits;
- pre-sale permits can only be issued to entire buildings, in addition, pre-sale permit shall not be issued to individual floors or units;
- property developers shall conduct commercial housing pre-sale programs and sell the commercial housing in accordance with such programs. The programs shall include basic information on the project, such as construction schedule, number of pre-sale housing, predicted size, the areas of public space and public facilities, sale prices and the range of changes in sale prices and the monitoring system for pre-sale proceeds. The pre-sale programme and all material changes to such programme shall be reported to the relevant authorities for record and be published;
- all pre-sale proceeds shall be deposited into accounts under monitoring to ensure the legitimate use for project construction; and
- property developers shall take primary responsibility for the quality of properties developed, while enterprises in the business of survey, design, construction or supervision shall also take the respective responsibilities accordingly.

Various local governments have enacted local regulations to supplement the national requirements.

According to the Guangdong Province, Administration of Pre-sale of Commodity Premises Regulations (廣東省商品房預售管理條例) promulgated by the Standing Committee of the Guangdong Provincial People's Government on 22 August 1998, most recently revised on 25 September 2014, the following conditions must be fulfilled for the pre-sale of commodity premises in the Guangdong Province:

- the pre-seller has already obtained a real property development qualification certificate and a business licence;
- the leaseholds grant fee has been paid in accordance with the relevant provisions of the land administration department and a leaseholds certificate has already been obtained;

- a construction planning licence and construction works licence are held and the construction quality and safety monitoring procedures have been carried out;
- the work schedule, time of completion and time of delivery for use have been set;
- the foundations and structure of commodity premises of not more than three storeys have been completed. In the case of commodity premises of not less than four storeys, if the premises have a basement, the foundations and first storey structure have been completed; if the premises do not have a basement, the foundations and structure of four storeys have been completed;
- a special property pre-sale account has been opened with a commercial bank in the place where the project is located;
- the commodity premises pre-sale project and its leaseholds are free from third party rights; and
- any other conditions stipulated in laws and regulations.

Pursuant to the Pre-sale Measures, pre-sale proceeds shall only be applied towards settlement of the related construction cost. The specific measures for the supervision of the pre-sale proceeds may be formulated by the local real estate administration authorities. In Beijing, Wuhan, Guangdong Province, Shandong Province and certain other cities, the local real estate administration authorities have formulated, in accordance with the Pre-sale Measures, their own rules with respect to the supervision of the use of pre-sale proceeds. Under these local rules, the developer shall open an escrow account of pre-sale proceeds in a commercial bank of the same locality as the commodity building, to ensure that all pre-sale proceeds are used to the related construction expenses.

The buyer of a pre-sale commodity premises is prohibited from conducting any further transfer of such premises if the building is still under construction. A real name system for pre-sale must be applied and on-line pre-sale contract registration must be carried out.

Under the Sales Regulations, commodity premises may be put to post-completion sale only when the following preconditions have been satisfied: (a) the real estate development enterprise offering to sell the post-completion buildings shall have an enterprise legal person business license and a qualification certificate of a real estate developer; (b) the enterprise has obtained a land use right certificate or other approval documents of land use; (c) the enterprise has the permit for construction project planning and the permit for construction; (d) the commodity premises have been completed and been inspected and accepted as qualified; (e) the relocation of the original residents has been well settled; (f) the supplementary essential facilities for supplying water, electricity, heating, gas, communication, etc. have been made ready for use, and other supplementary essential facilities and public facilities have been made ready for use, or the schedule of construction and delivery date of have been specified; and (g) the property management plan has been completed. Before the post-completion sale of a commodity building, a real estate developer shall submit the Real Estate Development Project Manual and other documents showing that the preconditions for post-completion sale have been fulfilled to the real estate development authority for making a record.

On 22 March 2011, the NDRC promulgated the Regulations on Clearly Marking Price in the Sale of Commodity Houses (商品房屋銷售明碼標價規定), according to which the sale of commodity housing shall mark prices on a per unit basis, and show to the public the collection of handling fees and property management charges. A commodity house operator shall not charge any additional fees other than those clearly marked during the property sale. After the price of a commodity house is clearly marked, the developer may reduce the price or provide discounts, however, any increase in price shall be re-filed with the competent authority for record. These regulations also apply to the selling of second hand property by real estate agents.

According to Notice on Conducting Special Inspections of the Sale of Commodity Houses with Marked Prices (關於開展商品房銷售明碼標價項目檢查的通知) promulgated by the General Office of the NDRC and implemented on 11 May 2011, real estate developers who failed to mark a price on each unit in accordance with relevant regulations will be imposed a fine of CNY5,000 for each unit sold. If the real estate developers are found to have committed in price fraud, order of correction, confiscation of illegal gains and fine will be imposed; in serious cases, the real estate developers will be ordered to suspend business.

Leasing

Both the Urban Land Regulations and the Real Property Law permit leasing of granted land use rights and the buildings or properties constructed on the land. The Administrative Measures for the Urban House Leasing (城市房屋租賃管理辦法) were promulgated by the Ministry of Construction in May 1995 in accordance with the Real Property Law in order to strengthen the administration of the leasing of urban buildings, which was subsequently replaced by the Administrative Measures for Commodity House Leasing (商品房屋租賃管理辦法) (the “**Leasing Measures**”) promulgated by MOHURD on 1 December 2010. According to the Leasing Measures, the parties to a housing tenancy shall go through the housing tenancy registration formalities with the competent real estate authorities of the municipalities directly under the PRC central government, cities and counties where the housing is located within 30 days after the housing tenancy contract is signed. The relevant real estate authorities are authorised to impose a fine below RMB1,000 on individuals, and a fine from RMB1,000 to RMB10,000 on other violators who are not natural persons and fail to comply with the regulations within the specified time limit. The Leasing Measures came into effect as at 1 February 2011 in replacement of the Administration Measures for Urban Buildings Leasing.

According to the Real Property Law, rental income derived from the lease of buildings and the underlying land use rights from a landlord who acquired only allocated land use rights without payment of consideration for such acquisition must be turned over to the State.

The term of a contract for leasing of premises and the underlying land use rights must not exceed a maximum term of 20 years.

Real Estate Financing

Financial Restrictions

The PRC government has introduced a number of measures and regulations to restrict the ability of property developers to raise capital through external financing and other methods since 2003. For example, the Circular on Further Strengthening the Management of Property Loans (中國人民銀行關於進一步加強房地產信貸業務管理的通知) issued by the PBOC on 5 June 2003 stipulates that commercial banks may not grant loans to property developers for the purposes of paying for land grant fees and land premiums. Loans of any kind must not be granted for projects which do not obtain a land use rights certificate, construction land planning permit, construction works planning permit and construction works commencement permit. In addition, a developer applying for real estate development loans shall have at least 35 per cent. of capital funds required for the development. Furthermore, the Opinions of the Ministry of Construction and other Departments on Adjusting the Housing Supply Structure and Stabilising Housing Prices (國務院辦公廳轉發建設部等部門關於調整住房供應結構穩定住房價格的意見) issued by the Ministry of Construction and other Departments on 24 May 2006 and the Notice on Strengthening the Management of Commercial Real Estate Credit and Loans (中國人民銀行、中國銀行業監督管理委員會關於加強商業性房地產信貸管理的通知) promulgated and implemented jointly by the PBOC and the CBRC on 27 September 2007 (the “**2007 Notice**”), stipulate that commercial banks may not grant loans to developers of projects where: (1) the capital funds (owner’s equity) constitutes less than 35 per cent.; (2) projects without a land use rights certificate, construction land planning permit, construction works planning permit and construction works commencement permit; and (3) property development enterprises

that have been classified by the relevant government authorities as hoarding land and housing resources. Furthermore, commercial banks are not permitted to accept commodity premises with a vacancy exceeding three years as collateral for a loan, and may not grant property development enterprises any loans for the payment of relevant land assignment premiums. The 2007 Notice further stipulates requirements that strengthen the processes for loan management, including the implementation of credit checks, monitoring of real estate loans and risk management.

On 5 December 2007, the PBOC and the CBRC jointly issued the Supplemental Notice on Strengthening the Administration of Commercial Real-estate Credit Loans (中國人民銀行、中國銀行業監督管理委員會關於加強商業性房地產信貸管理的補充通知), which clarifies that the times of property mortgage loans should be calculated on a family basis, including the borrower and his spouse and minor child.

On 21 September 2010, the MLR and MOHURD announced the Notice Relating to Enhancing Housing Property Land and Construction Management Restriction (國土資源部、住房和城鄉建設部關於進一步加強房地產用地和建設管理調控的通知), requiring a strict management to housing land sales, and a strict examination to the land bidders. For breaching the following requirements, the MLR will forbid the land bidder and its controlling shareholders to bid land: (i) forging documents and land speculation; (ii) illegal transfer of land use rights; (iii) letting land being idle for more than a year; and (iv) breaching of the conditions prescribed by the contract of assignment of the land.

On 29 September 2010, the PBOC and the CBRC issued the Notice on Relevant Issues Relating to the Improvement of Differential Housing Loan Policy (中國人民銀行、中國銀行業監督管理委員會關於完善差別化住房信貸政策有關問題的通知), which prohibits commercial banks from granting or extending loans to property developers that violate laws and regulations such as (i) holding idle land; changing the land use; (iii) changing the land nature; (iv) delaying the commencement and completion of development; and (v) intentionally holding properties for future sale, for the purpose of new property development.

Additional Loan Policies

According to a notice promulgated by the PBOC on 19 June 2001, all banks must comply with the certain funding requirements, including the loan amount to actual value of security (mortgage ratio) and timing requirements before granting residential development loans, individual housing mortgage loans and commercial real estate loans. Pursuant to guidance issued by the CBRC on 2 September 2004, any property development enterprise applying for property development loans must have at least 35 per cent. of the capital required to fund the development of the property.

Property Services Management

According to the Catalogue of Guidance on Industries for Foreign Investment, property management falls within the category of permitted foreign invested industries. Before the SAIC registers a foreign-invested-enterprise as a foreign invested real estate management enterprise, the foreign-invested real estate management enterprise should obtain an approval from the relevant department of commerce and receive a “foreign-invested enterprise approval certificate.”

Under the Measures for the Administration of Qualifications Certificates of Property Services Enterprises (物業服務企業資質管理辦法) promulgated by the Ministry of Construction in 17 March 2004 with effect on 1 May 2004 and amended by the Ministry of Construction and effective on 26 November 2007, a property management enterprise shall apply for assessment of qualifications by the qualification approval authority. An enterprise which passes such a qualification assessment will be issued a qualification certificate evidencing the qualification classification by the authority. No enterprise may engage in property management without undertaking a qualification assessment and obtaining a qualification certificate. The said Measures for the Administration of Qualifications Certificates of Property Services Enterprises has been abolished by MOHURD on 8 March 2018.

According to the Regulation on Property Management (物業管理條例) enacted by the State Council on 8 June 2003 and implemented on 1 September 2003, as further amended on 26 August 2007 and 6 February 2016, and became effective on 6 February 2016, and amended on 6 February 2016 and 19 March 2018, the general meeting of owners in a property can appoint and dismiss the property management enterprise with affirmative votes of owners holding more than half of the voting rights. Before the formal appointment of a property management enterprise by the general meeting of the owners, a written temporary service contract should be signed by the construction institutions (for example, a developer) and a property management enterprise.

According to the Rules on Property Management Service Fees (物業服務收費管理辦法) jointly promulgated by the NDRC and the Ministry of Construction on 13 November 2003, the amount of property management fees payable to a property management enterprise as remuneration may be set between the owners and property management enterprises by reference to a fixed management fee or a percentage based management fee. The property management enterprise may collect a fixed management fee from the property owners to cover all operating costs incurred for property management and shall account for any shortfall and retain any surplus. Or, management fees may be charged by reference to a fixed percentage of the total management fees collected. The balance of the fees will be used for covering the operating cost incurred for property management, and the property owners shall account for any shortfall and retain any surplus.

Insurance

There is no mandatory provision under PRC laws and regulations requiring a property developer to obtain insurance policies for its property under construction. According to the common practice of the real estate industry in Guangdong, construction companies are usually required to submit insurance proposals in the course of tendering and bidding for construction projects. Construction companies are required to pay for the insurance premiums at their own costs and obtain insurance to cover their liabilities, such as third-party liability risk, employer's liability risk, risk of non-performance of contract in the course of construction and risks associated with the construction and installation works during the construction period. The requirement for construction companies to obtain insurance coverage for all the aforementioned risks ceases immediately after the completion and acceptance upon inspection of construction. According to the Rules of Guangdong Province for Implementing the PRC Fire Control Law (廣東省實施《消防法》辦法) revised in 2010, public gathering places, such as hotels and shopping malls, must carry public liability insurance for fire accidents.

Recent Macroeconomic Control Measures

The General Office of the State Council enacted the Circular on Stabilising Housing Prices (關於切實穩定住房價格的通知) with effect on 26 March 2005, requiring measures to be taken to restrain the housing price from increasing too fast and to promote the healthy development of the real estate market.

On 9 May 2005, the Ministry of Construction, the NDRC, Ministry of Finance, the MLR, the PBOC, the SAT and the CBRC jointly issued the Opinion of Stabilising Housing Prices (關於做好穩定住房價格工作的意見) with effect on the same date, followed by a set of new measures. As a result:

- beginning 1 June 2005, a business tax was levied on property sales proceeds subject to the length of the period for which the property has been held and type of property concerned;
- transfer of uncompleted properties has been banned;

- planning review of residential properties which fail to commence construction within two years, which are not in compliance with their respective planning permits will be revoked; and
- land provision for villa construction was banned and land provision for high-end residential property construction was restricted.

On 24 May 2006, the General Office of the State Council further issued a Notice on the Opinions on Adjusting the Housing Supply Structure and Stabilising the Housing Prices (關於調整住房供應結構穩定住房價格意見的通知). The notice provided for six broad measures including but not limited to the following specific directives to (i) encourage mass-market residential developments and to curb the development of high-end residential properties; (ii) enforce the collection of business taxes on property sales (business taxes will be levied on the entire sale price of any property sold within five years, or on the profit arising from any property sold after five years subject to possible exemptions for ordinary residential properties); (iii) restrict housing mortgage loans to not more than 70 per cent. of the total property price (for houses purchased for self-residential purposes and with an area of less than 90 sq.m., the owners are still able to apply for housing mortgage up to an amount representing 80 per cent. of the total property price); (iv) halt land supply for villas projects and restrict land supply for high-end, low density residential projects; (v) moderate the progress and scale of demolition of old properties for redevelopment; (vi) local governments are also required to ensure that at least 70 per cent. of the total development and construction area also must consist of units of less than 90 sq.m. in size (with any exceptions requiring the approval of the Ministry of Construction); and (vii) banks are not permitted to provide loans to a property developer whose total capital fund is less than 35 per cent. of the total investment amount in an intended development project. On 30 August 2006, the State Council published the Notice by the State Council on Strengthening the Regulation and Control of the Land (關於加強土地調控有關問題的通知), which regulates the management of land in the PRC and also the protection of cultivated land. According to the notice, land designated for industrial purposes shall be granted by way of tender, auction and invitation for bidding, but in any event shall not be sold below the reserve price.

On 30 May 2006, the MLR published an Urgent Notice to Tighten Up Land Administration (當前進一步從嚴土地管理的緊急通知). In this notice, the MLR stressed that local governments must adhere to their annual overall land use planning and land supply plans and tighten up the control on land supply for non-agricultural use. The notice requires local governments to suspend the supply of land for new villa projects to ensure adequate supply of land for more affordable housing. In this notice, the MLR also required the local governments to conduct thorough investigations of illegal land use and submit a report on such investigations to the Ministry by the end of October 2006. The notice was repealed by MLR on 18 December 2010.

On 30 September 2007, the MLR issued the Notice on Implementation of the State Council's Certain Opinions on Resolving Difficulties of Urban Low-income Families and Further Strengthening Macro-control of Land Supply (關於認真貫徹國務院《關於解決城市低收入家庭住房困難的若干意見》進一步加強土地供應調控的通知), amended on 3 December 2010, pursuant to which, at least 70 per cent. of the land supply arranged by the relevant land administration authority at municipality or county level for residential property development for any given year must be used for developing low-to-medium-cost and small-to-medium-size units, low-cost rental properties and affordable housing.

On 27 September 2007, the PBOC and the CBRC further tightened mortgage lending by PRC banks, by increasing the amount of down payment a property purchaser must make before seeking mortgage financing.

On 10 October 2007, the MLR issued the Regulations on Assignment of State-owned Construction Land Use Right through Bidding, Auction and Quotation (招標拍賣掛牌出讓國有建設用地使用權規定) effective on 1 November 2007, which reiterated that property developers must fully pay the land premium for the entire parcel under the land grant contract before they can receive a land use rights certificate and/or commence development on the land, effective 1 November 2007. On 3 January 2008, the State

Council issued the Notice to Enhance the Economical and Intensive Use of Land (關於促進節約集約用地的通知) with effect on the same date, which requires full utilisation of the market's fundamental efforts in promoting land resources distribution, and aims to improve the mechanisms for economical and intensive usage of land by: (i) strictly enforcing the bid tender, auction and listing transfer system for industrial and operative land and requiring, for industrial usage land and operative land of commercial, traveling, entertainment and commodity housing etc. (including land usage for ancillary business operations, research and training), and for the same land lot with two or more intending land users, an open transfer by bid tender, auction and listing; (ii) enhancing the contract system for land usage; and (iii) continuing to suspend land supply for villas development of houses, requiring that not less than 70 per cent. of the residential land supply is used for construction of low rent housing, economical housing, fixed-price housing and medium and small sized housing, in order to prevent large sized housing to occupy excessive land.

On 20 December 2008, the General Office of the State Council issued the Certain Opinions on Promoting the Healthy Development of Real Estate Market (關於促進房地產市場健康發展的若干意見) effective on the same date, which changed the period of the business tax levied on the full amount of the sale proceeds on conveyance of residential properties from five years from the date of purchase to two years from the date of purchase. If an individual sells his non-ordinary apartment after two or more years from the date of purchase, the business tax will be levied on the balance between the selling price and the purchase price. This policy was in place temporarily until 31 December 2009.

On 18 November 2009, the Ministry of Finance, the MLR, the PBOC, the PRC Ministry of Supervision and the PRC National Audit Office jointly promulgated the Notice on Further Enhancing the Revenue and Expenditure Control over Land Grant (關於進一步加強土地出讓收支管理的通知). This notice raises the minimum down-payment for land premium to 50 per cent. and requires the land premium to be fully paid within one year after the signing of a land grant contract, subject to limited exceptions.

On 7 January 2010, the General Office of the State Council issued the Notice on Promoting the Steady and Healthy Development of the Real Estate Market (關於促進房地產市場平穩健康發展的通知) effective on the same date, which is also aimed at dampening speculation in the property market and slowing the rate of price increases. The notice, among other things, provides that the minimum down payment for the purchase of a second residential property by any household with mortgage on its first residential property shall be 40 per cent. of the purchase price.

On 8 March 2010, the MLR issued the Notice on Relevant Issues relating to Strengthening the Supply and Supervision of Land Use for Real Estate Property (關於加強房地產用地供應和監管有關問題的通知) effective on the same date. The notice, among other things, provides that: (i) land resource authorities shall strictly control the land supply for large-sized apartments and prohibit the land supply for villas; and (ii) the land use rights grant contract must be executed within ten days after a grant of land has been mutually agreed and a down payment of 50 per cent. of the land grant premium shall be paid within one month from the execution of the land use rights grant contract with the remaining amount to be paid no later than one year after the execution of the land use rights grant contract.

On 17 April 2010, the State Council issued the Notice on Resolutely Curbing the Rapid Rising of Housing Prices in Certain Cities (關於堅決遏制部分城市房價過快上漲的通知) effective on the same date, according to which a stricter differential housing credit policy shall be enforced. It provides that, among other things: (i) for first-time family buyers (including the borrower, his/her spouse and his/her underage children) of apartments larger than 90 square metres, a minimum 30 per cent. down payment must be paid; (ii) the down payment requirement on second-home mortgages was raised to at least 50 per cent. from 40 per cent. and also reiterated that an extra 10 per cent. should be adopted on the interest rates for housing loans granted to such buyers; and (iii) for those who buy three or more houses, even higher requirements on both down payments and interest rates shall be levied. In addition, the banks can suspend housing loans to buyers who own two or more housing units in places where housing prices are rising too rapidly and are too high, and housing supply is insufficient.

Three authorities, including MOHURD, the PBOC and the CBRC, jointly released the Notice on Regulating the Standards for Identifying the Second Set of Housing in Commercial Individual Housing Loans (關於規範商業性個人住房貸款中第二套住房認定標準的通知) on 26 May 2010, so as to regulate recognition of the second house of applicants for commercial housing loans (hereinafter referred to as the loan applicants). Under the notice, the number of houses owned by a family in applications for commercial housing loans for individuals shall be calculated according to number of sets of houses which are actually owned by members (including the loan applicant and his/her spouse and under-age children, hereinafter the same) of the family who plans to purchase a house. The notice also stipulates that house purchasers shall check the house registration records of the family via the house registration system, and shall provide the results in writing. The loan applicant shall provide the credit guarantee in writing to prove the actual number of houses owned by his/her family.

On 29 September 2010, the PBOC and the CBRC issued the Notice on Relevant Issues Relating to the Improvement of Differential Housing Loan Policy (關於完善差別化住房信貸政策有關問題的通知) effective on the same date, which, among other things:

- prohibits commercial banks from providing housing mortgage temporarily to any members of a family unit purchasing the third or the subsequent residential housing or non-local residents who fail to provide local one-year or longer tax payment certificates or social insurance payment certificates;
- prohibits commercial banks from granting or extending loans to property developers that violate laws and regulations such as: (i) holding idle land; (ii) changing the land use; (iii) delaying the commencement and completion of development; (iv) intentionally holding properties for future sale, for the purpose of new property development; and
- increase the minimum down payment to at least 30 per cent. of the purchase price of the property.

On 2 November 2010, the Ministry of Finance, MOHURD, the CBRC and the PBOC jointly issued the Notice on Issues Concerning Policies on Regulation of Personal Housing Provident Fund Loan (關於規範住房公積金個人住房貸款政策有關問題的通知), which provides that where personal housing provident fund loan is used to buy the first ordinary self-use house and the floor area of the house is no more than 90 sq.m., the down-payment proportion shall not be lower than 20 per cent.; where the floor area of the house is more than 90 sq.m., the down-payment proportion shall not be lower than 30 per cent. Only the housing provident fund-paying families whose floor area per capita is less than local average shall have access to personal housing provident fund loan which is used to buy the second house, and the loan shall be used to buy ordinary self-use house so as to improve dwelling conditions. Where the personal housing provident fund loan is used to buy the second house, the down-payment proportion shall not be lower than 50 per cent., and the interest rate of such loan shall not be less than 1.1 times of the interest rate of the personal housing provident fund loan for the purchase of the first house. Personal housing provident fund loans for the purchase of a third or more houses by housing provident fund-paying families shall be suspended.

On 26 January 2011, the General Office of the State Council promulgated the Circular on Issues Concerning Further Works of Regulation and Control of Real Estate Market (國務院辦公廳關於進一步做好房地產市場調控工作有關問題的通知) effective on the same date (the “**26 January 2011 Circular**”), as a general rule, municipalities, provincial capitals and cities with high housing prices shall make purchase restrictions for a specified period. In principle: (i) a local residential family that already holds one house or a non-local residential family that is able to provide evidence of local tax or social insurance payment for a required period is limited to purchasing one house (whether a new commodity residential house or

a second hand one); and (ii) a local residential family that holds two or more houses, a non-local residential family that holds one or more houses and a non-local residential family that cannot provide the local payment of tax and/or social insurance for a required period shall be suspended from purchasing any other commodity residential houses.

Base on the Urgent Notice to Further Tighten Up Real Property Land Administration and Consolidate the Achievement of Macroeconomic Control of Real Property Market (關於進一步嚴格房地產用地管理鞏固房地產市場調控成果的緊急通知), which was jointly promulgated by the MLR and MOHURD and effective on 19 July 2012, all local governments shall strictly enforce the macroeconomic policy on real property market. The grant of real property land shall not exceed the upper limit of area and the grant of two or more bundled parcels of lands or uncleared lands is prohibited. The plot ratio of residential land shall not be less than one. Residential construction projects shall be commenced within one year from the land title delivery date which stipulated in the land allocation decision or land grant contract, and shall be completed within three years from the date of commencement. Inspection of land bidders' qualification shall be strictly implemented to preclude bank loans from being used to pay for the land premium. The competent authority of land and resources shall forbid the land users from participating the land bidding for a certain period if the land users: (i) fail to pay land premium in time; (ii) leave the land idle; (iii) reserve lands for future development or speculation; (iv) commit to a construction scale beyond its actual development capacity; or (v) fail to perform land use contract.

On 6 September 2012, the MLR promulgated the Notice on Strictly Carrying out Land Use Standards and Vigorously Promoting the Economical and Intensive Use of Land (國土資源部關於嚴格執行土地使用標準大力促進節約集約用地的通知), which provides, among other things, that: (i) if lands for construction are in the Catalogue of Prohibited Land Project, or fail to comply with the requirements in the Catalogue of Restricted Land Project, i.e. fail to comply with industrial project control index requirement in investment intensity, plot ratio, building coefficient, administrative office and living service area ratio and green ratio, or total area of land of engineering construction projects or area of land of one or several functional partitions exceed land quota control limit, or parcel area and plot ratio fail to meet the residential requirements, then the project shall not apply for land approval, supply and use; (ii) for commercial lands like industrial, commercial, tourism, entertainment, and commercial residential land, which must be granted by tender, auction and listing, municipal and county land and resources departments must state explicitly the control requirement and use standards for such land when formulating land grant plan and land grant documents, implement national regulations and publish the standards to the public. The notice was repealed by MLR on 6 September 2012.

On 26 February 2013, the General Office of the State Council issued the Circular on Further Promoting Real Estate Market Regulation (國務院辦公廳關於繼續做好房地產市場調控工作的通知), requesting its subordinate governments to implement the existing policies strictly to regulate the property market. In addition, pursuant to this circular, the individual income tax rate of 20% shall be levied on the difference of the purchase and sale prices of the properties in question.

On 29 September 2014, the PBOC and the CBRC issued the Notice on Further Improving Housing Financial Services (關於進一步做好住房金融服務工作的通知). The notice requires that: (i) for the first ordinary owner-occupied residential property, a 30% minimum down payment must be paid and the loan interest rate shall not be less than 0.7 times the benchmark lending rate; (ii) where a family that owns an existing property for which the property purchase loan has been paid up applies for a new loan to purchase the second set of ordinary owner-occupied residential property, banks shall adopt the lending policies applicable to the first ordinary owner-occupied property; (iii) in the cities where the residential property purchase restrictions have been cancelled or are not implemented, if a family that owns two or more properties for which the property purchase loans have been paid up applies for a new loan to purchase additional new property, banks shall determine the down payment ratio and the loan interest rate in a prudent manner based on the borrower's repayment capability, credit standing and other factors.

On 30 March 2015, the PBOC, MOHURD and the CBRC issued the Circular on Issues Concerning Policies on Personal Housing Loan (中國人民銀行、住房城鄉建設部、中國銀行業監督管理委員會關於個人住房貸款政策有關問題的通知). Pursuant to the circular, where the commercial personal housing loan is used to buy the second ordinary self-use house for promoting the living conditions and in the meanwhile the loan used to buy the first self-use house has not been fully repaid, the down-payment proportion shall be no lower than 40 per cent.; where the personal housing provident fund loan is used to buy the first ordinary self-use house, the down-payment shall be no lower than 20 per cent.; where the personal housing provident fund loan is applied to buy second house by who possess one house and has fully repaid the loan, the down-payment shall be no lower than 30 per cent.

On 31 March 2015, the Ministry of Finance issued the Notice concerning Adjustment of Business Tax Policies Applied on Individual Housing Transfer (關於調整個人住房轉讓營業稅政策的通知), pursuant to which for the sale of an ordinary housing unit more than 2 years after the original purchase date, it shall be exempted from business tax.

On 1 April 2017, the MOHURD and the MLR issued the Circular of the MOHURD and the MLR on Strengthening the Administration and Regulation of Recent Housing and Land Supply (住房城鄉建設部、國土資源部關於加強近期住房及用地供應管理和調控有關工作的通知), pursuant to the notice, in cities that have prominent contradictions between housing supply and demand or that face overheating markets, the supply of residential land, in particular the land for ordinary commercial houses, shall be increased reasonably. In cities with heavy workloads of destock housing inventory, the supply of residential land shall be reduced or even suspended. All the local authorities shall build an inspection system to ensure that the real estate developers are using their own legal funds to purchase land.

On 23 August 2020, MOHURD and the PBOC held a meeting with the key real estate enterprises to discuss a long-term mechanism for regulation of the real estate market. After the meeting, MOHURD and PBOC introduced several capital and financing management rules, commonly known as the “three red lines”, to regulate the real estate market, requiring real estate enterprises to maintain (i) a debt-to-asset ratio of less than 70% after exclusion of the deposits received; (ii) a net debt ratio of less than 100%; and (iii) a cash to short-term debt ratio of greater than one. The “three red lines” rules have come into effect on 1 January 2021.

Regulation of Foreign Currency Exchange and Dividend Distribution

Foreign Currency Exchange

The principal regulations governing foreign currency exchange in the PRC are the Regulations of the PRC on Foreign Exchange (中華人民共和國外匯管理條例, the “**Foreign Exchange Regulations**”), promulgated by the State Council on 29 January 1996, as amended and effective on 5 August 2008. Under the Foreign Exchange Regulations, a domestic institution or individual makes direct investment or issues or trades negotiable securities or derivative products overseas shall handle the registration formalities at SAFE. If the relevant state provisions require it to get the approval of the competent department or archive the issue with the competent department, it shall do so before handling the registration formalities. The State shall implement the scale management of foreign debts. Any institution or individual borrowing foreign debts shall abide by the relevant State provisions and handle the foreign debt registration formalities at a foreign exchange administrative organ. SAFE shall take charge of collecting statistical data about and monitoring the foreign debts of the whole nation, and publish the foreign debt situations on a regular basis.

On 21 October 2005, SAFE issued the Notice on Issues Relating to the Administration of Foreign Exchange in Fund-raising and Reverse Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Vehicles (關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知). On 14 July 2014, SAFE promulgated the Circular on the Relevant Matters Concerning Foreign Exchange Administration on Outbound Investment/Financing and Round-Tripping Investment through

Special Purpose Companies by Domestic Residents (國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知, hereinafter referred to as “**Circular 37**”). Circular 37 supersedes all prior SAFE regulations on round-tripping investments, including the afore-said notice of 2005. According to Circular 37, “special purpose vehicle” refers to an offshore company directly established or indirectly controlled by PRC residents (including PRC entities or PRC individuals) using the assets or rights and interests which they lawfully own in a company in China, or the assets or rights and interests which they lawfully own offshore, for the purpose of engaging in investment or financing activities. The definition of “round-tripping investment” under Circular 37 is broad as it refers to the direct investment activities conducted by PRC residents through a SPV, either directly or indirectly, including establishing foreign invested enterprises or projects in the PRC by way of new establishment, merger and acquisition and so forth, and obtaining rights and interests therein such as ownership, control, operating and management rights and so forth. Previously, SAFE registration was required for each level of overseas entities established by the domestic residents. Under Circular 37, only the top-level special purpose vehicle that is directly established by the domestic resident needs to be registered with SAFE and there is no longer a need to disclose to SAFE the other levels of overseas entities set up under the umbrella of the top-level entity. This simplifies the registration process.

On 1 September 2006, the Ministry of Construction and SAFE promulgated the Notice on the Issues Concerning the Regulation of Foreign Exchange Administration of the Real Estate Market (關於規範房地產市場外匯管理有關問題的通知) and became effective on the same day, and amended on 4 May 2015. This notice states that: (i) where foreign exchange is remitted for a real estate purchase, the foreign purchaser shall be subject to examination by the designated foreign exchange bank. The remitted funds shall be directly remitted by the bank to the CNY account of the real estate development enterprise and no payment remitted from abroad by the purchasers shall be kept in the foreign exchange current account of the real estate development enterprises; (ii) where the real estate purchase fails to complete and the foreign purchaser intends to remit the purchase price in CNY back to foreign currencies, the foreign purchaser shall be subject to examination by the designated foreign exchange bank; (iii) when selling real estates in China and the purchase price received in CNY is remitted to foreign currencies, the foreign purchaser shall be subject to examination by the local branch of SAFE; and (iv) if its land use right certificate has not been obtained or the paid-in capital is less than 35 per cent. of the total investment amount of the project, the FIREE is prohibited from borrowing from any domestic or foreign lenders and SAFE shall not approve the settlement of any foreign loans.

On 1 June 2015, the Notice of the State Administration of Foreign Exchange Regarding the Reform of the Administration of Foreign Exchange Registered Capital Settlement for Foreign-Invested Enterprises (Huifa (2015) No. 19)(國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知)(“**Circular 19**”) became effective, which replaced the Notice on the Relevant Operating Issues concerning the Improvement of the Administration of Payment and Settlement of Foreign Currency Capital of Foreign-funded Enterprises (國家外匯管理局綜合司關於完善外商投資企業外匯資本金支付結匯管理有關業務操作問題的通知) issued by SAFE on 29 August 2008, Circular 19 was amended on 30 December 2019.

Under Circular 19, foreign invested enterprises will be able to convert their foreign exchange capital to Renminbi whenever they see fit. 100% of such foreign exchange capital can be converted to RMB on this basis. By contrast, under the previous policy foreign invested enterprises were permitted to convert foreign exchange registered capital into Renminbi only when they have actual Renminbi payment needs. It is also important to note that conversion to Renminbi currency in capital accounts remains strictly prohibited under Circular 19 for certain usages, including, without limitation, expenditure beyond business scope or state laws/regulations, investing in securities (unless currently existing laws or regulations state otherwise), purchasing real estate not for the company’s use (unless the company deals in real estate as part of its business activities).

On 30 July 2010, SAFE issued the Notice on Administration of Foreign Security by Domestic Institutions (國家外匯管理局關於境內機構對外擔保管理問題的通知). According to this notice, if an enterprise plans to provide security to foreign companies, the proportion of its net assets to its total assets shall be no less than 15 per cent. in principle, and the balance quota verified by the foreign exchange administrative authority for this enterprise or the balance of foreign security of this enterprise verified item-by-item by the foreign exchange administrative authority shall not exceed 50 per cent. of its net assets. It also provided that, under the foreign security provided by an PRC enterprise, the secured party shall satisfy the following conditions: (i) the secured party must be established or held (directly or indirectly) by the enterprise in or outside China; the amount of net assets of the secured party is a positive value; (ii) the secured party has made profit in at least one of the last three years; if the secured party engages in a long-term project such as resources development, it shall have made profit in at least one of the last five years; if the secured party has been established for less than three years (an ordinary enterprise) or five years (resources development enterprise), there shall be no compulsory requirement on profit making. It is further required under this notice that the funds under a financing foreign security shall not be repatriated for domestic use directly or indirectly by means of loans, equity investment, securities investment, etc. The PRC parent company of the PRC guarantor or overseas investment enterprise shall supervise the use of the funds obtained by the secured party for its production and operation activities overseas. The notice was abolished by MLR on 6 September 2012.

The Foreign Exchange Administrative Rules on Cross-border Guarantees (跨境擔保外匯管理規定) was issued by SAFE on 12 May 2014 and became effective on 1 June 2014. The Implementing Rules of the Administration of Foreign Security by Domestic Institutions (境內機構對外擔保管理辦法實施細則) and the Notice on Administration of Foreign Security by Domestic Institutions (國家外匯管理局關於境內機構對外擔保管理問題的通知) as mentioned above were abolished at the same time.

Under such new rules, cross-border guarantees are classified into three categories: (i) onshore guarantee and offshore lending (內保外貸); (ii) offshore guarantee and onshore lending (外保內貸); and (iii) other cross-border guarantees.

The onshore guarantee and offshore lending (內保外貸) arrangement refers to a circumstance where the guarantor is a PRC entity and the beneficiary and guaranteed party are offshore entities. In respect of such arrangement, the new rules set forth that:

- PRC financial institutions, non-financial institutions and individuals may provide onshore guarantees to support offshore lending. They need only to file with or report to SAFE (instead of prior approval).
- The funds so raised shall not be used by the borrower or the guaranteed party to engage in businesses outside its normal business scope. Such funds may not be repatriated for domestic use directly or indirectly by means of equity, debt, other investments, etc.

Under an offshore guarantee and onshore lending (外保內貸) arrangement, the guarantor is an offshore entity and the beneficiary and the guaranteed party are both PRC entities. According to the new rules, a PRC company may obtain a guarantee from an offshore entity for its onshore debts only if the lender of the onshore debt is a PRC financial institution.

The new rules provide that, in respect of other cross-border guarantees which are in compliance with applicable laws and the new rules, no filings with or reporting to SAFE are necessary unless otherwise expressly required by SAFE.

Dividend Distribution and Remittance

Under the Law of the People's Republic of China on Wholly Foreign-owned Enterprises (中華人民共和國外資企業法) and relevant implementing regulations, wholly foreign-owned enterprises in China may only pay dividends out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, a wholly foreign-owned enterprise in China is required to set aside at least 10.0% of its after-tax income each year, if any, to fund a reserve fund until the accumulated reserve amounts to 50.0% of its registered capital. It is also required to set aside funds for the employee bonus and welfare fund from its after-tax income each year at percentages determined at its sole discretion. These reserves are not distributable as cash dividends. If the registered capital of a foreign investment enterprise has not been fully paid in accordance with the articles of association, dividends in foreign currency may not be remitted out of the PRC.

The Law of the People's Republic of China on Wholly Foreign-owned Enterprises and relevant implementing regulations had been abolished and replaced by the Foreign Investment Laws and Implementing Regulations. Under the new rules, the organization form, institutional framework and standard of conduct of a foreign-invested enterprise shall be subject to the provisions of the Company Law of the People's Republic of China (中華人民共和國公司法)(the "**Company Law**"), which requires that shareholders may draw dividends in proportion to their actual capital contributions unless otherwise agreed by the shareholders. Under the Company Law, companies in China may only pay dividends out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, a company in China is required to draw 10% of its profits as the company's statutory common reserve, provided that a company with an aggregate common reserve of more than 50% of the company's registered capital may not to draw statutory common reserve. Where any company has drawn a statutory common reserve from its after-tax profits, it may, subject to a resolution of the board of shareholders or the general meeting, draw a discretionary common reserve from its after-tax profits. Where the board of shareholders, general meeting or board of directors distributes profits before losses are covered and the statutory common reserve is drawn, the profits distributed must be returned to the company. No profit may be distributed for shares held by the company itself.

Shareholder Loan and Foreign Debt

A shareholder loan made by foreign investors as shareholders to foreign invested enterprises such as cooperative joint ventures, equity joint ventures and foreign invested enterprises is regarded as foreign debt in China, which is subject to a number of PRC laws and regulations, including the Foreign Exchange Regulations (中華人民共和國外匯管理條例) promulgated by the State Council on 29 January 1996, as amended and effective on 5 August 2008; the Statistical Monitoring of Foreign Debts Tentative Provisions (外債統計監測暫行規定) promulgated by SAFE and effective on 27 August 1987 and the Detailed Rules for the Implementation of Statistics and Supervision of Foreign Debts (外債統計監測實施細則) promulgated by SAFE on 24 September 1997 and effective on 1 January 1998; the Regulations of Administration of the Settlement, Sale and Payment of Foreign Exchange (結匯、售匯及付匯管理規定) promulgated by the PBOC on 20 June 1996 and effective on 1 July 1996; and Administrative Measures for the Registration of Foreign Debt and the Operational Guidelines for the Registration of Foreign Debt (外債登記管理辦法和外債登記管理操作指引, hereinafter collectively referred to as "**New Foreign Debt Rules**") issued by SAFE on 28 April 2013, effective on 13 May 2013, and amended on 4 May 2015.

Under these regulations, a shareholder loan of a foreign debt nature made to cooperative joint ventures, equity joint ventures and foreign invested enterprises does not require the prior approval of SAFE. However, such foreign debt must be registered with and recorded by SAFE or its local branch in accordance with relevant PRC laws and regulations. The New Foreign Debt Rules require the first round of capital investment be paid before a foreign invested enterprise is permitted to obtain foreign debts. Foreign debts obtained by foreign invested enterprises are capped at the percentage of foreign capital injected multiplied by the difference between their respective amounts of "total investment" and "registered capital" as approved by the MOFCOM or its local counterparts. "Total investment" is the

projected amount of funds necessary for a foreign-invested enterprise to attain the production or operational capacity set out in its joint venture contract and/or articles of association, whereas, “registered capital” refers to the equity or capital contributions to be paid in full by the foreign investors and their Chinese partners (if any).

Within 15 days after formal execution of a shareholder loan agreement, foreign invested companies shall present relevant documents to SAFE or its local branches, complete registration procedures and collect a completed Form with Information on Execution of Foreign Debt Agreement which shall be affixed with the seal of the relevant foreign exchange authority. Foreign invested enterprises as borrowers may open accounts for withdrawal and repayment of foreign debts as long as the debt has been registered with SAFE or its local branch. The designated foreign exchange banks can now verify repayment of foreign debt directly.

The New Foreign Debt Rules have abolished the application procedures for foreign currency settlement for foreign debts. Designated foreign exchange banks are now authorised to examine such settlements, and foreign invested enterprises can now directly apply for foreign currency settlements with designated foreign exchange banks by submitting the relevant supporting documentation. The New Foreign Debt Rules confirm that proceeds of foreign debts obtained by foreign invested enterprises may be applied towards trade and services within its business scope and that if the foreign proceeds will be used towards refinancing existing debt, such proceeds cannot be converted into Renminbi.

However, it is notable that, the New Foreign Debt Rules have imposed certain restrictions on obtaining of foreign debts by foreign-invested real estate enterprises. According to the New Foreign Debt Rules, SAFE will not accept registration of foreign debts obtained by a FIREE if: (a) the FIREE as borrowers was duly incorporated after June 1, 2007; or (b) the FIREE has not obtained the relevant State-owned Land Use Right Certificate; or (c) the portion of capital fund is less than 35% of the total investment amount of the relevant project developed by such FIREE.

In addition, on 14 September 2015, the NDRC issued the Notice on Promoting the Administrative Reform of the Recordation and Registration System for Enterprises’ Issuance of Foreign Debts (關於推進企業發行外債備案登記制管理改革的通知) (the “**NDRC Notice 2044**”), which became effective on the same day. In order to encourage the use of low-cost capital in the international capital markets in promoting investment and steady growth and to facilitate cross-border financing, the NDRC Notice 2044 abolishes the case-by-case quota review and approval system for the issuance of foreign debts by PRC enterprises. For the purposes of the NDRC Notice 2044, “**foreign debts**” means RMB-denominated or foreign currency-denominated debt instruments with a maturity over one year which are issued offshore by PRC enterprises and their controlled offshore enterprises or branches and for which the principal and interest are repaid as agreed, including offshore bonds and long-term and medium-term international commercial loans. According to this definition, offshore bonds issued by both PRC enterprises and their controlled offshore enterprises or branches shall be regulated by the NDRC Notice 2044. Pursuant to the NDRC Notice 2044, an enterprise shall: (i) apply to the NDRC for the filing and registration procedures prior to the issuance of the bonds; and (ii) shall report the information on the issuance of the bonds to the NDRC within 10 working days after the completion of each issuance. The materials to be submitted by an enterprise shall include an application report and an issuance plan, setting out details such as the currency, size, interest rate, term, use of proceeds and the repatriation of funds. The NDRC shall decide whether to accept an application within five working days of receipt and shall issue an Enterprise Foreign Debt Pre-issuance Registration Certificate within seven working days of accepting the application.

Pursuant to the NDRC Circular, if there is a major difference between the actual circumstances of the foreign debts issued by the enterprises and the information submitted to the NDRC during the pre-issuance registration, an explanation shall be made when an enterprise reports the relevant information to the NDRC in accordance with the NDRC Circular. The NDRC shall enter a poor credit record of the enterprise into the national credit information platform if it maliciously and falsely reports the size of its foreign debts for record-filing and registration. However, the NDRC Circular is silent on the legal

consequences of failure to complete such pre-issuance registration and post-issue reporting requirements. According to the relevant guidance and tips on risks related to bond issuance outside the PRC by enterprises published by the NDRC on its website, enterprises, investment banks, law firms and other intermediaries involved in such bond issuance which do not comply with the requirements under the NDRC Circular will be blacklisted, criticized by the NDRC on its website and/or otherwise punished by the NDRC jointly with other competent regulators.

On 27 June 2018, the NDRC emphasized in a post on its website that the proceeds from bond offerings offshore by PRC property enterprises shall be mainly used for repayments of the debts due and shall be restricted from being used for investments in property projects within or outside China or working capital and it is also expressed that the NDRC plans to further regulate and standardize, among others, the relevant qualifications for the issuance of foreign debt and the usage of funds from such issuance by enterprises.

According to the Circular of the General Office of the National Development and Reform Commission on Requirements for Record-filing for Issuance of Foreign Debts by Real Estate Enterprises (Fa Gai Ban Wai Zi [2019] No.778)(國家發展改革委辦公廳關於對房地產企業發行外債申請備案登記有關要求的通知) promulgated by the NDRC on 9 July 2019, foreign debts issued by real estate enterprises could only be used for repaying medium and long-term offshore debts that will be due in the upcoming year.

On 11 January 2017, the PBOC issued the Circular of the People's Bank of China on Matters relating to the Macro-prudential Management of Fully-covered Cross-border Financing (中國人民銀行關於全口徑跨境融資宏觀審慎管理有關事宜的通知) (the "**PBOC Circular 9**"). Under the PBOC Circular 9, non-financial institutions and financial institutions with legal person status incorporated in the PRC are permitted to incur foreign debts, provided that their cross-border financings risk-weighted balances (跨境融資風險加權餘額) do not exceed their individually calculated cross-border financing risk-weighted balance ceiling (跨境融資風險加權餘額上限). Pursuant to the PBOC Circular 9, foreign invested enterprises (excluding foreign invested real estate enterprises) and foreign financial institutions are granted a one-year transitional period from the date of issuance of the PBOC Circular 9, during which they may either: (i) opt into the foreign debt quota system under the PBOC Circular 9; or (ii) stick to the current regime. Upon expiration of the transitional period, the PBOC Circular 9 shall apply to foreign financial institutions automatically, whilst the applicable regime of cross-border financing on foreign invested enterprises will be decided by the PBOC and SAFE after evaluation of the roll out of the new regime. However, according to the PBOC Circular 9, it is not applicable to government financing platforms and real estate enterprises.

PRC Taxation

Enterprise Income Tax

According to the EIT Law, a uniform income tax rate of 25 per cent. is applied equally to domestic enterprises, as well as foreign invested enterprises. Pursuant to the EIT Law, dividends and interests payable to a foreign investor are subject to a 20 per cent. withholding tax unless the jurisdiction of incorporation for the foreign investor has a tax treaty with China that provides for a different withholding arrangement.

According to the Implementation Rules of the PRC on the Enterprise Income Tax Law (中華人民共和國企業所得稅法實施條例) promulgated by the State Council on 6 December 2007 and effective 1 January 2008, and amended on 23 April 2019, a reduced income tax rate of 10 per cent. is applicable to any dividends payable to non-PRC enterprise investors from foreign invested enterprises. The EIT Law also provides a five-year transition period starting from its effective date for those enterprises which were established before the promulgation date of the new tax law and which were entitled to a preferential lower income tax rate under the then effective tax laws or regulations. The income tax rate of such enterprises will gradually be transiting to the uniform tax rate within the transition period in accordance with

implementing rules issued by the State Council. On 26 December 2007, the State Council issued the Circular to Implement the Transitional Preferential Policies for the Enterprise Income Tax (關於實施企業所得稅過渡優惠政策的通知) with effect on the same date, under which, for those enterprises then entitled to a preferential income tax rate of 15 per cent. and established before 16 March 2007, the transition income tax rate should be 22 per cent., 24 per cent. and 25 per cent., respectively, in 2010, 2011 and 2012.

On 11 April 2008, the SAT issued the Notice of Prepayment of Enterprise Income Tax of Real Estate Development Enterprises (關於房地產開發企業所得稅預繳問題的通知) with retrospective effect from 1 January 2008, requiring real estate developers to prepay enterprise income tax every quarter (or month) according to their current, actual profit. Under this notice, for income generated from pre-sale (before completion of construction) of buildings for residential or commercial use or other kinds, the tax shall be prepaid in the amount of the estimated quarterly or monthly profit calculated on the preset estimated profit rate, which shall be adjusted according to the actual profit after completion of construction of the buildings and settlement of the taxable cost. The notice was abolished by SAT on 29 May 2016.

According to the Avoidance of Double Taxation Agreement promulgated by the SAT on 6 January 2011 with retrospective effect from 20 December 2010, dividend payments to shareholders in Hong Kong would be withheld at a rate of 5 per cent. subject to approval by the relevant tax authorities if their investment ratio in invested entities in China is above 25 per cent., or 10 per cent. if their investment ratio in invested entities in China is below 25 per cent.

On 6 March 2009, the SAT promulgated the Management Measures on Income Tax for Real Estate Development Enterprises (房地產開發經營業務企業所得稅處理辦法), which took effect on 1 January 2008, and amended on 16 July 2014 and 15 June 2018. These measures explicitly stipulate the rules on tax treatment costs, tax treatment of costs deduction, calculation of taxation costs and tax treatment of other special matters.

On 12 May 2010, the SAT promulgated the Notice on the Confirmation of Completion Conditions of Development Projects of Real Estate Development Enterprises (關於房地產開發企業開發產品完工條件確認問題的通知), which stipulates that a real estate project shall be deemed as completed when the delivery procedures (or check-in procedures) of the real property is started, or the real property has been put on actual use. The real property developer shall settle the account on time and calculate the amount of enterprise income tax of the same year.

Business Tax and Value Added Tax (“VAT”)

Business tax is payable in respect of certain business activities in China as set out in the Provisional Regulations Concerning Business Tax (中華人民共和國營業稅暫行條例) promulgated by the State Council on 13 December 1993 and implemented on 1 January 1994, amended on 10 November 2008, implemented on 1 January 2009 and abolished on 19 November 2017, and the Detailed Implementation Rules on the Provisional Regulations of PRC on Business Tax (中華人民共和國營業稅暫行條例實施細則) issued by the Ministry of Finance on 25 December 1993, amended on 15 December 2008 and 28 October 2011 and implemented on 1 January 2009. The activities to which the business tax applies include supply of service as specified in the aforesaid regulations in PRC, transfer of intangible assets, leases, and sales of real estate properties in China. No deduction of the tax incurred on purchased services or materials is allowed except that the State Council make the decision of deduction or exemption of the tax. The rate of business tax payable for property sale and leasing transactions is 5 per cent. of the proceeds from the sale or leasing of real estate/immovable properties in China. Construction services are generally subject to a three per cent. business tax.

On 27 January 2011, the Ministry of Finance and the SAT issued the Notice on Adjusting the Business Tax Policies on Individual Housing Transfer (關於調整個人住房轉讓營業稅政策的通知(2011), the “**Notice**”), with effect on 28 January 2011. Under the Notice:

- for the sale of an ordinary housing unit or non-ordinary residential housing within five years after the original purchase date, the business tax thereon shall be collected on the full sale price;
- for the sale of non-ordinary residential housing more than five years after the original purchase date, the business tax thereon shall be collected on the basis of the difference between the sale price and the original purchase price; and
- for the sale of ordinary housing unit more than five years after the original purchase date, it shall be exempted from business tax.

On 31 March 2015, the Ministry of Finance issued the Notice concerning Adjustment of Business Tax Policies Applied on Individual Housing Transfer (關於調整個人住房轉讓營業稅政策的通知(2015)), pursuant to which for the sale of an ordinary housing unit more than 2 years after the original purchase date, it shall be exempted from business tax.

Pursuant to the Circular on Comprehensively Promoting the Pilot Program of the Collection of Value-added Tax in Lieu of Business Tax (關於全面推開營業稅改徵增值稅試點的通知) issued on 23 March 2016 and implemented on 1 May 2016 (“**Circular 36**”) by the Ministry of Finance and SAT, effective from 1 May 2016, PRC tax authorities have started imposing VAT on revenues from various service sectors, including real estate, construction, financial services and insurance, as well as other lifestyle service sectors, to replace the business tax that co-existed with value added tax for over 20 years. Since the issuance of Circular 36, the Ministry of Finance and SAT have subsequently issued a series of tax circulars in March and April 2016 to implement the collection of value added tax on revenues from construction, real estate, financial services and lifestyle services.

Pursuant to the Interim measures on the Management of Value Added Tax of Self-developed Real Estate Project by the Sale of Real Estate Developers (房地產開發企業銷售自行開發的房地產項目增值稅徵收管理暫行辦法) issued on 31 March 2016 and effective on 1 May 2016 by SAT, and amended on 15 June 2018, “**self-development**” means infrastructure facilities and building erected on the land with land use rights which are developed by a real estate development company (“**taxpayer**”). These measures are also applicable to a development completed by a taxpayer after such project is taken over. The applicable rate of VAT is 11 per cent.. Nevertheless, for taxpayers conducting old real estate projects and who have chosen to apply the simplified tax method, the simplified rate of 5 per cent. will be applied in calculating the prepaid VAT. Once the simplified tax method is chosen, it will be applicable for 36 months. “Old real estate projects” generally refer to real estate projects with commencement dates of construction stated in the construction permits prior to 30 April 2016.

Based on the Decision of the State Council to Repeal the Interim Regulation of the People’s Republic of China on Business Tax and Amend the Interim Regulation of the People’s Republic of China on Value-Added Tax (國務院關於廢止《中華人民共和國營業稅暫行條例》和修改《中華人民共和國增值稅暫行條例》的決定), issued by the State Council on 19 November 2017, the Business Tax is no longer applicable, and the VAT rate would be 11 per cent. for taxpayers providing transportation, postal, basic telecommunications, construction, or immovable leasing services, selling immovable or transferring the rights to use land, among other things. On 28 March 2018, Premier Li Keqiang presided over an executive meeting of State Council which decided that, among others, the VAT rate for taxpayers providing transportation, construction, basic telecommunication and other services will be further reduced from 11 per cent. to 10 per cent. from 1 May 2018. Detailed rules in respect of such reform are yet to be issued by competent government authorities.

Land Appreciation Tax

Under the PRC Provisional Regulations on Land Appreciation Tax (中華人民共和國土地增值稅暫行條例) (the “**LAT Regulations**”) which was promulgated on 13 December 1993 and amended on 18 January 2011, LAT applies to both domestic and foreign investors in real properties in Mainland China, irrespective of whether they are corporate entities or individuals. The tax is payable by a taxpayer on the appreciation value derived from the transfer of land use rights, buildings or other facilities on such land, after deducting the “deductible items” that include the following:

- payment made to acquire land use rights;
- costs and charges incurred in connection with land development;
- construction costs and charges in the case of newly constructed buildings and facilities;
- assessed value in the case of old buildings and facilities;
- taxes paid or payable in connection with the transfer of land use rights, buildings or other facilities on such land; and
- other items allowed by the Ministry of Finance.

Pursuant to the Land Appreciation Tax for Development and Transfer Contracts Signed before 1 January 1994 (關於對1994年1月1日前簽訂開發及轉讓合同的房地產徵免土地增值稅的通知) issued by the Ministry of Finance on 17 January 1995, the LAT Regulation does not apply to the following transfers of land use rights:

- real estate transfer contracts executed before 1 January 1994; and
- first time transfers of land use rights and/or premises and buildings during the five years commencing on 1 January 1994 if the real estate development contracts were executed or the development projects were approved before 1 January 1994 and the capital has been injected for the development in compliance with the relevant regulations.

After the enactment of the LAT Regulations and the implementation rules in 1994 and 1995 respectively, due to the long period of time typically required for real estate developments and their transfers, many government authorities, while implementing these regulations and rules, did not require real estate development enterprises to declare and pay the LAT as they did for other taxes. Therefore, in order to assist the local tax authorities in the collection of LAT, the Ministry of Finance, SAT, Ministry of Construction and the State Land Administration Bureau (the predecessor of the MLR) separately and jointly issued several notices to reiterate that, after the assignments are signed, the taxpayers should declare the tax to the local tax authorities of the place where the real estate is located, and pay the LAT in accordance with the amount as calculated by the tax authority and within the time period as required. For those who fail to acquire proof as regards the tax paid or the tax exemption from the tax authorities, the real estate administration authority will not process the relevant title change procedures, and will not issue the property ownership title certificates.

On 2 March 2006, the SAT and the Ministry of Finance issued the Circular on Land Appreciation Tax (財政部、國家稅務總局關於土地增值稅若干問題的通知) effective on the same date. The circular stipulated the following:

- Taxpayers constructing both ordinary residential properties and other commodity houses should calculate the appreciation value of the land separately, and declare the tax to the local tax authorities where the properties are located.

- Local authorities shall determine, and adjust as appropriate, the provisional LAT, or LAT rates considering the relevant real property market, the type of buildings constructed and any other applicable factors.
- A taxpayer who fails to prepay the LAT within the stipulated time frame may be liable to a penalty under the “Administrative Law of the People’s Republic of China on the Levying and Collection of Taxes” (中華人民共和國稅收徵收管理法) promulgated by the Standing Committee of the NPC on 4 September 1992 and amended on 28 April 2001, 29 June 2013 and 24 April 2015.
- In relation to completed property projects, if 85 per cent. or more of the saleable GFA has been assigned or transferred, then the local tax authority may require the taxpayer to pay tax on the income from the assigned or transferred property.
- For taxpayers whose shareholders or joint-cooperation partners contributed real properties as capital to such taxpayers, the temporary tax exemption in relation to ordinary residential properties does not apply.

On 28 December 2006, the SAT issued the Circular on the Administration of the Settlement of Land Appreciation Tax of Property Development Enterprises (關於房地產開發企業土地增值稅清算管理有關問題的通知) which came into effect on 1 February 2007, and amended on 15 June 2018. Pursuant to the circular, a property developer shall settle and clear the LAT payment of its development projects that meet certain criteria with the tax authorities in accordance with the applicable LAT tax rates. The LAT shall be settled for projects approved by the competent authorities; and for projects developed in different stages, the LAT shall be settled in stages. LAT must be settled if: (i) the property development project has been completed and fully sold; (ii) the property developer transfers the whole incomplete development project; or (iii) the land-use rights with respect to the project is transferred. In addition, the relevant tax authorities may require the developer to settle the LAT if any of the following criteria is met: (i) for completed property development projects, the transferred GFA represents more than 85 per cent. of total salable GFA, or the proportion represented is less than 85 per cent., but the remaining saleable GFA has been leased out or used by the developer; (ii) the project has not been sold out for more than three years after obtaining the sale or pre-sale permit; (iii) the developer applies for cancellation of the tax registration without having settled the relevant LAT; or (iv) other conditions stipulated by the provincial tax authorities.

The circular also indicated that if a property developer satisfies any of the following circumstances, the tax authorities shall levy and collect LAT as per the levying rate no lower than the pre-payment rate with reference to the bearing rate of LAT of local enterprises with a similar development scale and income level: (i) failure to maintain account book required by law or administrative regulation; (ii) destroying the account book without authorisation or refusing to provide taxation information; (iii) the accounts are in a state of mess or cost materials, income vouchers and cost vouchers are damaged and incomplete, making it difficult to determine transferred income or amount of deductible items; (iv) failure to go through LAT settlement within the prescribed period, and such failure is not cured within the period required by the relevant tax authorities; (v) the basis for tax calculation as submitted is obviously low without justifiable cause. Local provincial tax authorities can formulate their own implementation rules according to the notice and local situation.

The SAT issued the Administrative Rules for the Liquidation of Land Appreciation Tax (關於印發《土地增值稅清算管理規定》的通知) effective from 1 June 2009. The SAT reiterated the above requirements in the new rules.

On 19 May 2010, the SAT issued the Circular on Relevant Issues of the Settlement of Land Appreciation Tax (國家稅務總局關於土地增值稅清算有關問題的通知) effective on the same date, which details the relevant issues concerning the income verification about the settlement of LAT, and the calculation about exemption issues under certain circumstances.

On 25 May 2010, the SAT promulgated the Notice on Strengthening the Collection of Land Appreciation Tax (國家稅務總局關於加強土地增值稅徵管工作的通知) effective on the same date and imposed further requirements on the collection of LAT. This notice provides that, except for indemnificatory housing, the minimum LAT prepayment rate shall be no less than 2 per cent. For properties in the eastern region of the PRC, no less than 1.5 per cent. for properties in the central or northeast region of the PRC and no less than 1 per cent. for properties in the western region of the PRC. The LAT prepayment rates will be determined by the local authorities based on the different types of properties in the locality.

According to Article 3 of the Notice on Adjustments to Taxation Policies on the Links of Real Estate Deals (財政部、國家稅務總局關於調整房地產交易環節稅收政策的通知) promulgated by the Ministry of Finance and the SAT and implemented on 1 November 2008 and amended on 1 October 2010, the selling of houses by individuals is exempted from paying the LAT for the time being.

Deed Tax

Pursuant to the Interim Regulations of the People's Republic of China On Deed Tax (中華人民共和國契稅暫行條例) promulgated by the State Council on 7 July 1997, effective on 1 October 1997 and amended on 2 March 2019, the transferee, whether an individual or otherwise, of the title to a land site or building in the PRC shall be responsible for the payment of deed tax. The rate of deed tax is 3 per cent. to 5 per cent. of the purchase price. The governments of provinces, autonomous regions and municipalities may, within the foresaid range, determine and report their effective tax rates to the Ministry of Finance and the SAT for the record.

On 22 October 2008, the Ministry of Finance, and the SAT jointly announced the Circular on Adjusting the Tax Expenses of Housing Transactions (關於調整房地產交易環節稅收政策的通知) effective 1 November 2008 and amended on 29 September 2010. The Ministry of Finance and the SAT temporarily exempt stamp duty and LAT for purchase or sales of housing by individuals, as applicable.

On 9 March 2010, the Ministry of Finance, and the SAT further announced the Circular on Deed Tax Policy Relevant to First-time Purchase of Ordinary Residential Premises (關於首次購買普通住房有關契稅政策的通知) effective on the same date which stipulated that for two or more people collectively purchasing common housing with a GFA of less than 90 sq.m., and one or more of the buyers have house purchasing record before. The collective buyers of the captioned common house cannot enjoy the preferential deed tax policy applicable to first time purchaser. The circular has been abolished by the Ministry of Finance according to the Decision of the Ministry of Finance on Publishing the Catalogue (No.12) of Abolished and Lapsed Financial Regulations and Normative Documents (財政部關於公佈廢止和失效的財政規章和規範性文件目錄(第十二批)的決定) on 18 August 2016.

On 29 September 2010, Ministry of Finance, the SAT and MOHURD jointly announced the Circular on Adjusting the Preferential Policies for Deed Tax and Individual Income Tax Relating to Real Property Transactions (關於調整房地產交易環節契稅、個人所得稅優惠政策的通知) and effective 1 October 2010 which stipulated that deed tax shall be levied at half the applicable rate on an individual who purchases an ordinary residential property that is the only housing belonging to the family (members include the purchaser, his/her spouse and their minor children, the same below), and shall be levied at a reduced rate of 1 per cent. on an individual who purchases an ordinary residential property of no larger than 90 sq.m. that is the only housing belonging to the family. Individuals shall not enjoy the aforesaid preferential policies where the ordinary residential property they purchase fails to meet the above requirements.

Urban Land Use Tax

Pursuant to the Interim Regulations of the People's Republic of China On Land Use Tax with respect to Urban Land (中華人民共和國城鎮土地使用稅暫行條例) promulgated by the State Council on 27 September 1988 and as amended on 31 December 2006, 8 January 2011, 7 December 2013 and 2 March 2019, the land use tax with respect to urban land is levied according to the area of relevant land. As at 1 January 2007, land use tax shall be collected from domestic enterprises and individuals, foreign companies and foreign-invested enterprises, which enjoy land use rights in respect of land in cities, county towns, administrative towns and industrial and mining districts. The annual tax on every sq.m. of urban land shall be from RMB0.6 to RMB30.0. The specific rates will be determined by the local authorities, depending on the size of their locations, taking into account the local economies and property prices.

Stamp Duty

Under the Interim Regulations of the People's Republic of China on Stamp Duty (印花稅暫行條例) promulgated by the State Council on 6 August 1988 and amended with effect on 8 January 2011, for building property transfer instruments, including those with respect to property ownership transfer, the duty rate shall be 0.05 per cent. of the amount stated therein; for building leases, the duty rates is 0.1 per cent. of the rental; for permits and certificates relating to rights, including property title certificates and land use rights certificates, stamp duty shall be levied on an item basis of RMB5 per item.

According to the Notice on Adjustments to Taxation Policies on the Links of Real Estate Deals (財政部、國家稅務總局關於調整房地產交易環節稅收政策的通知) promulgated by the Ministry of Finance and the SAT and implemented on 1 November 2008 and partly repealed on 1 October 2008, the selling or purchase of houses by individuals is exempted from paying stamp duty.

Real Estate Tax

In pursuance of the Provisional Regulations of the PRC on Real Estate Tax (中華人民共和國房產稅暫行條例) promulgated by the State Council on 15 September 1986 and amended with effect on 8 January 2011, the real estate tax is imposed on the owner of property at a rate of 1.2 per cent. if it is calculated on basis of the residual value of a building and 12 per cent. if it is calculated on the basis of the rental value. This tax presently applies to Chinese legal entities and certain groups of home purchasers in Shanghai and Chongqing. It has been reported in media that the State Council of China plans to include more cities to levy real estate tax on home purchasers after Shanghai and Chongqing were selected as the first pilot cities in 2011.

Municipal Maintenance Tax

Under the PRC Interim Regulations on Municipal Maintenance Tax (中華人民共和國城市維護建設稅暫行條例) promulgated by the State Council on 8 February 1985 and amended with effect 8 January 2011, taxpayer, whether an individual or otherwise, of product tax, VAT or business tax are required to pay municipal maintenance tax calculated on the basis of product tax, value-added tax and business tax. The tax rate is 7 per cent. for a taxpayer whose domicile is in an urban area, 5 per cent. for a taxpayer whose domicile is in a county or a town, and 1 per cent. for a taxpayer whose domicile is not in any urban area or county or town.

Foreign invested enterprises, foreign companies and individuals were exempted from such tax before 1 December 2010. On 18 October 2010, the State Council issued the Notice on Unifying the System of Municipal Maintenance Tax and Education Surcharge Paid by Domestic and Foreign-invested Enterprises and Individuals (國務院關於統一內外資企業和個人城市維護建設稅和教育費附加制度的通知), which provides that from 1 December 2010, the PRC Interim Regulations on Municipal Maintenance Tax (中華人民共和國城市維護建設稅暫行條例) promulgated in 1985 and further revised in 2011 shall be applicable to foreign-invested enterprises, foreign enterprises and individual foreigners. Laws, regulations, rules and

policies on municipal maintenance tax promulgated by the State Council and the competent finance and tax authorities under the State Council since 1985 shall also be applicable to foreign invested enterprises, foreign enterprises and individual foreigners.

Education Surcharge

Under the Interim Provisions on Imposition of Education Surcharge (徵收教育費附加的暫行規定), promulgated by the State Council on 28 April 1986 and amended on 7 June 1990, 20 August 2005 and 8 January 2011, any taxpayer, whether an individual or otherwise, of VAT, business tax or consumption tax is liable for an education surcharge, unless such taxpayer is required to pay a rural area education surcharge as provided by the Notice of the State Council on Raising Funds for Schools in Rural Areas (國務院關於籌措農村學校辦學經費的通知) promulgated and effective on 13 December 1984. The Education Surcharge rate is 3 per cent. calculated on the basis of consumption tax, VAT and business tax.

Foreign invested enterprises, foreign companies and individuals were exempted from such surcharge before 1 December 2010. On 18 October 2010, the State Council issued the Notice on Unifying the System of Municipal Maintenance Tax and Education Surcharge Paid by Domestic and Foreign-invested Enterprises and Individuals (國務院關於統一內外資企業和個人城市維護建設稅和教育費附加制度的通知), which provides that from 1 December 2010, the Interim Provisions on Imposition of Education Surcharge (徵收教育費附加的暫行規定) promulgated in 1986 and further revised in 2011 shall be applicable to foreign-invested enterprises, foreign enterprises and individual foreigners. Laws, regulations, rules and policies on the education surcharge promulgated by the State Council and the competent finance and tax authorities under the State Council since 1986 shall also be applicable to foreign invested enterprises, foreign enterprises and individual foreigners.

Local Educational Surcharge

Under the Notice of the Ministry of Finance to Unify the Relevant Issues on Policies of Levying Local Educational Surcharge (財政部關於統一地方教育附加政策有關問題的通知), similar to education surcharge, local educational surcharge is applicable to taxpayers (including foreign invested enterprises, foreign enterprises and foreign individuals) and is calculated and levied at 2 per cent. on the basis of consumption tax, VAT and business tax.

TAXATION

The following is a general description of certain tax considerations relating to the Notes and is based on law and relevant interpretation thereof in effect as at the date of this Offering Circular all of which are subject to changes and does not constitute legal or taxation advice. It does not purport to be a complete analysis of all tax considerations relating to the Notes, whether in those countries or elsewhere. Prospective purchasers of Notes should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes and the consequences of such actions under the tax laws of those countries. It is emphasised that none of the Issuer, the Guarantor, the Arrangers, the Dealers nor any other persons involved in the Programme accepts responsibility for any tax effects or liabilities resulting from the subscription for purchase, holding or disposal of the Notes.

Hong Kong

Withholding Tax

No withholding tax is payable in Hong Kong in respect of payments of principal or interest on the Notes or in respect of any capital gains arising from the sale of the Notes.

Profits Tax

Hong Kong profits tax is chargeable on every person carrying on a trade, profession or business in Hong Kong in respect of profits arising in or derived from Hong Kong from such trade, profession or business (excluding profits arising from the sale of capital assets).

Interest on the Notes may be deemed to be profits arising in or derived from Hong Kong from a trade, profession or business carried on in Hong Kong in the following circumstances:

- (i) interest on the Notes is derived from Hong Kong and is received by or accrues to a corporation carrying on a trade, profession or business in Hong Kong;
- (ii) interest on the Notes is derived from Hong Kong and is received by or accrues to a person, other than a corporation, carrying on a trade, profession or business in Hong Kong and is in respect of the funds of that trade, profession or business;
- (iii) interest on the Notes is received by or accrues to a financial institution (as defined in the Inland Revenue Ordinance (Cap. 112) of Hong Kong (the "IRO")) and arises through or from the carrying on by the financial institution of its business in Hong Kong; or
- (iv) interest on the Notes is received by or accrues to a corporation, other than a financial institution, and arises through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the IRO).

Sums received by or accrued to a financial institution by way of gains or profits arising through or from the carrying on by the financial institution of its business in Hong Kong from the sale, disposal and redemption of the Notes will be subject to Hong Kong profits tax.

Sums received by or accrued to a corporation, other than a financial institution, by way of gains or profits arising through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the IRO) from the sale, disposal or other redemption of Notes will be subject to Hong Kong profits tax.

Sums derived from the sale, disposal or redemption of the Notes will be subject to Hong Kong profits tax where received by or accrued to a person, other than a financial institution, who carries on a trade, profession or business in Hong Kong and the sum has a Hong Kong source unless otherwise exempted. The source of such sums will generally be determined by having regard to the manner in which the Notes are acquired and disposed of.

As at the date of this Offering Circular, Hong Kong profits tax is imposed at the rate of 16.5 per cent. on corporations and 15.0 per cent. on unincorporated businesses. In certain circumstances, Hong Kong profits tax exemptions (such as concessionary tax rates) may be available. Investors are advised to consult their own tax advisors to ascertain the applicability of any exemptions to their individual position.

Stamp Duty

Stamp duty will not be payable on the issue of Bearer Notes provided that either:

- (i) such Bearer Notes are denominated in a currency other than the currency of Hong Kong and are not repayable in any circumstances in the currency of Hong Kong; or
- (ii) such Bearer Notes constitute loan capital (as defined in the Stamp Duty Ordinance (Cap. 117) of Hong Kong (the “**SDO**”)).

If stamp duty is payable, it is payable by the Issuer on the issue of Bearer Notes at a rate of 3 per cent. of the market value of the Bearer Notes at the time of issue. No stamp duty will be payable on any subsequent transfer of Bearer Notes.

No stamp duty is payable on the issue of Registered Notes. Stamp duty may be payable on any transfer of Registered Notes if the relevant transfer is required to be registered in Hong Kong. Stamp duty will, however, not be payable on any transfer of Registered Notes provided that either:

- (i) such Registered Notes are denominated in a currency other than the currency of Hong Kong and are not repayable in any circumstances in the currency of Hong Kong; or
- (ii) such Registered Notes constitute loan capital (as defined in the SDO).

If stamp duty is payable in respect of the transfer of Registered Notes it will be payable at the rate of 0.2 per cent. (of which 0.1 per cent. is payable by the seller and 0.1 per cent. is payable by the purchaser) normally by reference to the consideration or its value, whichever is higher. In addition, stamp duty is payable at the fixed rate of HK\$5 on each instrument of transfer executed in relation to any transfer of the Registered Notes if the relevant transfer is required to be registered in Hong Kong .

The Proposed Financial Transaction Tax (“FTT”)

In February 2013, the European Commission published a proposal (the “**Commission Proposal**”) for a Council Directive for a common FTT in Belgium, Germany, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the “**participating Member States**”) and Estonia. Estonia officially announced its withdrawal from negotiations in March 2016.

The proposed FTT has very broad scope and could, if introduced in its current form, apply to certain transactions in the Notes (including secondary market transactions) in certain circumstances. Primary market transactions referred to in Article 5(c) of Regulation (EC) No. 1287/2006 are expected to be exempt.

Under the Commission Proposal, the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in Notes where at least one party is a financial institution (as defined), and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, “established” in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

The FTT proposal remains subject to negotiation between the participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of Notes are advised to seek their own professional advice in relation to the FTT and its potential impact on their dealings in the Notes before investing.

United States

FATCA Withholding Tax

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a “foreign financial institution” may be required to withhold on certain payments it makes (“**foreign passthru payments**”) to persons that fail to meet certain certification, reporting, or related requirements. The Issuer may be a foreign financial institution for these purposes. A number of jurisdictions have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (“**IGAs**”), which modify the way in which FATCA applies in their jurisdictions. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply prior to the date that is two years after the date on which final regulations defining foreign passthru payments are published in the U.S. Federal Register. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Notes.

SUBSCRIPTION AND SALE

Summary of Dealer Agreement

The Dealers have, in an amended and restated dealer agreement dated 8 January 2021 (the “**Dealer Agreement**”), agreed with the Issuer and the Guarantor a basis upon which they or any of them may from time to time agree to subscribe for the Notes. Any such agreement will extend to those matters stated under “**Form of the Notes**” and “**Terms and Conditions of the Notes**”. The Issuer, failing whom the Guarantor, will pay each Relevant Dealer a commission as agreed between them in respect of Notes subscribed by it. Where the Issuer agrees to sell to the Dealer(s), who agree to subscribe and pay for, or to procure subscribers to subscribe and pay for, Notes at an issue price (the “**Issue Price**”), any subsequent offering of those Notes to investors may be at a price different from such Issue Price. The Issuer, failing whom the Guarantor, has agreed to reimburse the Arrangers for certain of its expenses incurred in connection with the establishment, and any future update, of the Programme and the Dealers for certain of their activities in connection with the Programme.

In connection with the issue of any Tranche of the Notes, the Dealer or Dealers (if any) named as the stabilising manager(s) (the “**Stabilising Manager**”) in the applicable Pricing Supplement (or persons acting on behalf of any Stabilising Manager(s)) may, to the extent permitted by applicable laws and directives, over-allot the Notes or effect transactions with a view to supporting the price of the Notes at a level higher than that which might otherwise prevail, but in so doing, the Stabilising Manager or any person acting on behalf of the Stabilising Manager shall act as principal and not as agent of the Issuer or the Guarantor. However, there is no assurance that the Stabilising Manager or any person acting on behalf of the Stabilising Manager will undertake stabilisation action. Any loss or profit sustained as a consequence of any such over-allotment or stabilisation shall be for the account of the Dealers.

The Dealers and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities (“**Banking Services or Transactions**”). The Dealers and their respective affiliates may have, from time to time, performed, and may in the future perform, various Banking Services or Transactions with the Issuer and the Guarantor for which they have received, or will receive, fees and expenses.

In connection with the offering of each Tranche of the Notes issued under the Programme, the Dealers and/or their respective affiliates, or affiliates of the Issuer or the Guarantor, may act as investors and place orders, receive allocations and trade such Notes for their own account and such orders, allocations or trading of the Notes may be material. Such entities may hold or sell such Notes or purchase further Notes for their own account in the secondary market or deal in any other securities of the Issuer or the Guarantor, and therefore, they may offer or sell the Notes or other securities otherwise than in connection with the offering of the Notes. Accordingly, references herein to the offering of such Tranche of the Notes should be read as including any offering of such Notes to the Dealers and/or their respective affiliates, or affiliates of the Issuer or the Guarantor as investors for their own account. Such entities are not expected to disclose such transactions or the extent of any such investment, otherwise than in accordance with any applicable legal or regulatory requirements. If such transactions occur, the trading price and liquidity of such Notes may be impacted.

Furthermore, it is possible that a significant proportion of a Tranche or Series of the Notes may be initially allocated to, and subsequently held by, a limited number of investors. If this is the case, the trading price and liquidity of trading in such Notes may be constrained. The Issuer, the Guarantor and the Dealers are under no obligation to disclose the extent of the distribution of the Notes amongst individual investors, otherwise than in accordance with any applicable legal or regulatory requirements.

In the ordinary course of their various business activities, the Dealers and their respective affiliates make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Issuer and/or the Guarantor, including the Notes and could adversely affect the trading price and liquidity of the Notes. The Dealers and their affiliates may make investment recommendations and/or publish or express independent research views (positive or negative) in respect of the Notes or other financial instruments of the Issuer or the Guarantor, and may recommend to their clients that they acquire long and/or short positions in the Notes or other financial instruments of the Issuer or the Guarantor.

Selling Restrictions

United States of America

In respect of Notes offered or sold in reliance on Category 1 as specified in the applicable Pricing Supplement, the Notes have not been and will not be registered under the Securities Act. Notes in bearer form having a maturity of more than one year are subject to US tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the US or to US persons. Each of the Dealers has represented and agreed that it has not offered, sold or delivered and will not offer, sell or deliver a Note in bearer form within the US or to US persons except as permitted by the Dealer Agreement.

In respect of Notes offered or sold in reliance on Category 2 as specified in the applicable Pricing Supplement:

- (a) The Notes have not been and will not be registered under the Securities Act, as amended and may not be offered or sold within the US or to, or for the account or benefit of, US persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.
- (b) Notes in bearer form having a maturity of more than one year are subject to US tax law requirements and may not be offered, sold or delivered within the US or its possessions or to a US person, except in certain transactions permitted by US tax regulations. Terms used in this paragraph have the meanings given to them by the US Internal Revenue Code and regulations thereunder.
- (c) Each Dealer has represented and agreed that, except as permitted by the Dealer Agreement, it has not offered, sold or delivered and will not offer, sell or deliver the Notes of any identifiable Tranche (i) as part of their distribution at any time or (ii) otherwise until 40 days after completion of the distribution of such Tranche as determined, and certified to the Issuer, by the Issuing and Paying Agent, or in the case of Notes issued on a syndicated basis, the Lead Manager, within the US or to, or for the account or benefit of, US persons, and it will have sent to each Dealer to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the US or to, or for the account or benefit of, US persons.

In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the US by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

Prohibition of Sales to EEA Retail Investors

Unless the Pricing Supplement in respect of any Notes specifies the “Prohibition of Sales to EEA Retail Investors” as “Not Applicable”, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Offering Circular as completed by the Pricing Supplement in relation thereto to any retail investor in the European Economic Area.

For the purposes of this provision:

- (a) the expression “**retail investor**” means a person who is one (or more) of the following:
 - a. a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “**MiFID II**”); or
 - b. a customer within the meaning of Directive (EU) 2016/97 (the “**Insurance Distribution Directive**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or
 - c. not a qualified investor as defined in Regulation (EU) 2017/1129 (the “**Prospectus Regulation**”); and
- (b) the expression an “**offer**” includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes.

Prohibition of Sales to UK Retail Investors

Unless the Pricing Supplement in respect of any Notes specifies the “Prohibition of Sales to UK Retail Investors” as “Not Applicable”, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by the Offering Circular as completed by the Pricing Supplement in relation thereto to any retail investor in the United Kingdom.

For the purposes of this provision:

- (a) the expression “**retail investor**” means a person who is one (or more) of the following:
 - a. a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (“**EUWA**”); or
 - b. a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (the “**FSMA**”) and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA; or
 - c. not a qualified investor as defined in Article 2 of Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the EUWA; and

- (b) the expression an “offer” includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes.

Public Offer Selling Restriction under the Prospectus Regulation

If the Pricing Supplement in respect of any Notes specifies the “Prohibition of Sales to EEA Retail Investors” as “Not Applicable”, in relation to each Member State of the European Economic Area (each, a “**Relevant State**”), each Dealer represents and agrees, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Offering Circular as completed by the Pricing Supplement in relation thereto to the public in that Relevant State except that it may make an offer of such Notes to the public in that Relevant State:

- (a) if the final terms in relation to the Notes specify that an offer of those Notes may be made other than pursuant to Article 1(4) of the Prospectus Regulation in that Relevant State (a “**Non-exempt Offer**”), following the date of publication of a prospectus in relation to such Notes which has been approved by the competent authority in that Relevant State or, where appropriate, approved in another Relevant State and notified to the competent authority in that Relevant State, provided that any such prospectus has subsequently been completed by the final terms contemplating such Non-exempt Offer, in accordance with the Prospectus Regulation, in the period beginning and ending on the dates specified in such prospectus or final terms, as applicable and the Issuer has consented in writing to its use for the purpose of that Non-exempt Offer;
- (b) at any time to any legal entity which is a qualified investor as defined in the Prospectus Regulation;
- (c) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Regulation), subject to obtaining the prior consent of the Relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (d) at any time in any other circumstances falling within Article 1(4) of the Prospectus Regulation,

provided that no such offer of Notes referred to in (b) to (d) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Regulation, or supplement a prospectus pursuant to Article 23 of the Prospectus Regulation.

For the purposes of this provision, the expression an “offer of Notes to the public” in relation to any Notes in any Relevant State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes and the expression “**Prospectus Regulation**” means Regulation (EU) 2017/1129, as amended.

Public Offer Selling Restriction under the UK Prospectus Regulation

If the Pricing Supplement in respect of any Notes specifies “Prohibition of Sales to UK Retail Investors” as “Not Applicable”, each Dealer represents and agrees that it has not made and will not make an offer of Notes which are the subject of the offering contemplated by the Offering Circular as completed by the Pricing Supplement in relation thereto to the public in the United Kingdom except that it may make an offer of such Notes to the public in the United Kingdom:

- (a) if the final terms in relation to the Notes specify that an offer of those Notes may be made other than pursuant to section 86 of the FSMA (a “**Public Offer**”), following the date of publication of a prospectus in relation to such Notes which either (i) has been approved by the Financial

Conduct Authority, or (ii) is to be treated as if it had been approved by the Financial Conduct Authority in accordance with the transitional provision in Regulation 74 of the Prospectus (Amendment etc.) (EU Exit) Regulations 2019, provided that any such prospectus has subsequently been completed by final terms contemplating such Public Offer, in the period beginning and ending on the dates specified in such prospectus or final terms, as applicable, and the Issuer has consented in writing to its use for the purpose of that Public Offer;

- (b) at any time, to any legal entity which is a qualified investor as defined in Article 2 of the UK Prospectus Regulation;
- (c) at any time, to fewer than 150 natural or legal persons (other than qualified investors as defined in Article 2 of the UK Prospectus Regulation) in the United Kingdom, subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (d) at any time, in any other circumstances falling within section 86 of the Financial Services and Markets Act 2000 (the “**FSMA**”),

provided that no such offer of Notes referred in (b) to (d) above shall require the Issuer or any Dealer to publish a prospectus pursuant to section 85 of the FSMA or supplement a prospectus pursuant to Article 23 of the UK Prospectus Regulation.

For the purposes of this provision, the expression an “**offer of Notes to the public**” in relation to any Notes means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes and the expression “**UK Prospectus Regulation**” means Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the EUWA.

United Kingdom

Each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that:

- (a) in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Hong Kong

In relation to each Tranche of Notes to be issued by the Issuer under the Programme, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that:

- (a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes, except for Notes which are a “structured product” as defined in the SFO, other than (i) to “professional investors” as defined in the SFO and any rules made under the SFO; or (ii) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the “C(WUMP)O”) or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and
- (b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the SFO and any rules made under the SFO.

People’s Republic of China

Each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that the Notes are not being offered or sold and may not be offered or sold, directly or indirectly, in the People’s Republic of China (for such purposes, not including the Hong Kong and Macau Special Administrative Regions or Taiwan), except as permitted by applicable laws of the People’s Republic of China.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the “Financial Instruments and Exchange Act”). Accordingly, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan.

Singapore

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that this Offering Circular has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in

Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289) of Singapore as modified or amended from time to time (the “SFA”)) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

This Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this Offering Circular and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes may not be circulated or distributed, nor may the Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the SFA, (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA, except:

- (i) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (ii) where no consideration is or will be given for the transfer;
- (iii) where the transfer is by operation of law;
- (iv) as specified in Section 276(7) of the SFA; or
- (v) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

Singapore SFA Product Classification: In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the “SFA”) and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the “CMP Regulations 2018”), unless otherwise specified before an offer of Notes, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are ‘prescribed capital markets products’ (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

General

None of the Issuer, the Guarantor or the Dealers represent that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale. These selling restrictions may be modified by the agreement of the Issuer, the Guarantor and the Relevant Dealers following a change in a relevant law, regulation or directive. Any such modification will be set out in the Pricing Supplement issued in respect of the issue of Notes to which it relates or in a supplement to this Offering Circular.

The distribution of this Offering Circular, any Pricing Supplement or any offering material and the offering, sale or delivery of the Notes is restricted by law in certain jurisdictions. Therefore, persons who may come into possession of this Offering Circular, any Pricing Supplement or any offering material are advised to consult with their own legal advisers as to what restrictions may be applicable to them and to observe such restrictions. This Offering Circular may not be used for the purpose of an offer or invitation in any circumstances in which such offer or invitation is not authorised. No action has been taken or will be taken in any jurisdiction that would permit a public offering of the Notes, or possession or distribution of this Offering Circular, any Pricing Supplement or any amendment or supplement thereto or any other offering or publicity material relating to the Notes, in any country or jurisdiction where action for that purpose is required.

If a jurisdiction requires that the offering be made by a licensed broker or dealer and any of the Relevant Dealers or any affiliate of the Relevant Dealers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by such Relevant Dealer or such affiliate on behalf of the Issuer and the Guarantor in such jurisdiction.

GENERAL INFORMATION

Listing

Application has been made to the Hong Kong Stock Exchange for the listing of the Programme by way of debt issues to Professional Investors only during the 12-month period from the date of this Offering Circular on the Hong Kong Stock Exchange.

Authorisation

The establishment and update of the Programme and the issue of the Notes thereunder were authorised by the resolutions of the board of directors of the Issuer passed on 28 March 2018 and 7 January 2021. The establishment and update of the Programme and the giving of the Guarantee in respect of the Notes to be issued thereunder were authorised by the resolutions of the board of directors of the Company passed on 28 March 2018 and 7 January 2021. The Issuer and the Company have obtained all necessary consents, approvals and authorisations in connection with the Programme and the issue and performance of the Notes, unless otherwise specified in the relevant Pricing Supplement.

Legal and Arbitration Proceedings

From time to time, the Issuer, the Company and the other members of the Group may be involved in litigation that arise during the ordinary course of business. However, none of the Issuer, the Company or any other member of the Group is or has been involved in any governmental, legal or arbitration proceedings, (including any such proceedings which are pending or threatened, of which the Issuer or the Company is aware), which may have, or have had during the 12 months prior to the date of this Offering Circular, a significant effect on the financial condition or profitability of the Issuer, the Company or the Group.

No Material Adverse Change

Since 31 December 2019, save as disclosed in this Offering Circular, there has been no material adverse change or development or event involving a prospective change, in the condition (financial or otherwise), prospects, results of operations or general affairs of the Issuer, the Company or the Group.

Auditor

PricewaterhouseCoopers, Certified Public Accountants, the Company's independent auditor, has audited the Company's consolidated financial statements as at and for the years ended 31 December 2018 and 2019 in accordance with Hong Kong Standards on Auditing issued by the HKICPA, and rendered unqualified audit opinions thereon.

PricewaterhouseCoopers, Certified Public Accountants, the Company's independent auditor, has reviewed the Company's condensed consolidated interim financial information as at and for the six months ended 30 June 2020 in accordance with Hong Kong Standard on Review Engagements 2410 issued by the HKICPA, and rendered an unqualified review conclusion thereon.

Documents on Display

Copies of the documents mentioned in paragraphs (i) to (vi) below may be inspected during normal business hours on any weekday (Saturdays and public holidays excepted) at our registered offices at 26/F., Yue Xiu Building, 160 Lockhart Road, Wanchai, Hong Kong. The documents mentioned in paragraphs (vii) and (viii) below will be available for inspection by the Noteholders at all reasonable times during usual business hours (being between 9:00 a.m. and 3:00 p.m.) at the principal office of the Trustee, being at the date of this Offering Circular at Level 60, International Commerce Center, 1 Austin Road West, Kowloon, Hong Kong following written request and proof of holding and identity to the satisfaction of the Trustee for so long as the Notes are capable of being issued under the Programme:

- (i) the articles of association of the Issuer;
- (ii) the articles of association of the Company;
- (iii) the most recently published audited annual consolidated financial statements of the Issuer;
- (iv) the most recently published annual report and audited annual consolidated financial statements, and any consolidated interim financial statements (whether audited or unaudited) published subsequently to such audited annual financial statements, of the Company;
- (v) each Pricing Supplement (save that a Pricing Supplement relating to a Note which is not published will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer and the Trustee as to its holding of Notes and identity);
- (vi) this Offering Circular together with any supplement to this Offering Circular;
- (vii) the Trust Deed and any supplemental Trust Deed; and
- (viii) the Agency Agreement and any supplemental Agency Agreement.

Clearing of the Notes

The Notes may be accepted for clearance through Euroclear, Clearstream and the CMU Service. The appropriate common code and the International Securities Identification Number or the CMU Instrument Number, as the case may be, in relation to the Notes of each Tranche will be specified in the relevant Pricing Supplement. The relevant Pricing Supplement shall specify any other clearing system as shall have accepted the relevant Notes for clearance together with any further appropriate information.

Legal Entity Identifier

The legal entity identifier of the Issuer is 3003007KOE53GY4D8864.

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Unaudited but Reviewed Condensed Consolidated Interim Financial Information of the Guarantor as of and for the Six Months Ended 30 June 2020⁽¹⁾

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Note:

- (1) The Report on Review of Condensed Consolidated Interim Financial Information on the consolidated financial statements of the Guarantor for the six months ended 30 June 2020 set out therein is reproduced from the interim report of the Guarantor for the six months ended 30 June 2020. Page reference referred to in the Report on Review of Condensed Consolidated Interim Financial Information refers to pages set out in such interim report.
- (2) The Independent Auditor's Reports on the consolidated financial statements of the Guarantor for the years ended 31 December 2018 and 2019 set out therein are reproduced from the annual reports of the Guarantor for the years ended 31 December 2018 and 2019. Page reference referred to in the relevant Independent Auditor's Report refers to pages set out in the relevant annual reports.

REPORT ON REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION



羅兵咸永道

TO THE BOARD OF DIRECTORS OF YUEXIU PROPERTY COMPANY LIMITED
(incorporated in Hong Kong with limited liability)

INTRODUCTION

We have reviewed the condensed consolidated interim financial information set out on pages 27 to 69, which comprises the condensed consolidated balance sheet of Yuexiu Property Company Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2020 and the condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on condensed consolidated interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of condensed consolidated interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial information of the Group is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 24 August 2020

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CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

		Unaudited	
		Six months ended 30 June	
	Note	2020 RMB'000	2019 RMB'000
Revenue	6	23,713,884	21,788,127
Cost of sales	7	(17,071,363)	(15,241,498)
Gross profit		6,642,521	6,546,629
Proceeds from sales of investment properties		7,346	29,572
Direct costs of investment properties sold		(6,663)	(17,736)
Gain on sales of investment properties, net		683	11,836
Fair value losses on revaluation of investment properties, net	16	(18,042)	(16,232)
Other gains, net	8	10,577	797,544
Selling and marketing costs	7	(498,674)	(418,474)
Administrative expenses	7	(561,070)	(600,574)
Operating profit		5,575,995	6,320,729
Finance income	9	326,745	258,670
Finance costs	10	(505,379)	(634,102)
Share of (losses)/profits of			
– joint ventures		(45,201)	(57,691)
– associated entities		54,964	345,898
Profit before taxation		5,407,124	6,233,504
Taxation	11	(3,109,908)	(3,474,386)
Profit for the period		2,297,216	2,759,118
Attributable to			
Equity holders of the Company		1,994,723	1,870,140
Non-controlling interests		302,493	888,978
		2,297,216	2,759,118
Earnings per share for profit attributable to equity holders of the Company (expressed in RMB per share)			
– Basic and diluted	12	0.1288	0.1393

The notes on pages 35 to 69 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2020

	Unaudited Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Profit for the period	2,297,216	2,759,118
Other comprehensive income:		
<u>Items that may be reclassified to profit or loss</u>		
Exchange differences on translation of foreign operations	(218,092)	(64,896)
Cash flow hedges	(5,955)	727
Costs of hedging	61,004	(1,658)
<u>Items that will not be reclassified to profit or loss</u>		
Changes in fair value of equity investments at fair value through other comprehensive income, net of tax	(45,501)	63,073
Other comprehensive loss for the period, net of tax	(208,544)	(2,754)
Total comprehensive income for the period	2,088,672	2,756,364
Attributable to		
Equity holders of the Company	1,788,654	1,863,955
Non-controlling interests	300,018	892,409
	2,088,672	2,756,364

The notes on pages 35 to 69 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2020

As at			
	Note	30 June 2020 Unaudited RMB'000	31 December 2019 Audited RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	14	2,618,909	2,505,924
Right-of-use assets	15	4,029,069	4,065,788
Investment properties	16	9,428,580	9,438,108
Intangible assets		90,976	85,995
Properties under development		11,614,298	11,532,544
Interests in joint ventures		6,498,412	7,162,021
Interests in associated entities		11,984,134	12,830,629
Financial assets at fair value through other comprehensive income		1,227,266	1,293,264
Derivative financial instruments		63,293	65,179
Deferred tax assets	22	814,830	665,128
		48,369,767	49,644,580
Current assets			
Properties under development		121,394,144	125,407,543
Properties held for sale		13,740,233	13,446,673
Contract costs		473,587	481,320
Prepayments for land use rights		4,974,226	3,086,312
Trade receivables	17	99,970	68,309
Other receivables, prepayments and deposits		12,806,380	9,956,283
Prepaid taxation		3,099,498	2,416,865
Derivative financial instruments		166,607	—
Charged bank deposits		8,260,469	6,083,829
Cash and cash equivalents		21,900,590	24,105,541
		186,915,704	185,052,675
LIABILITIES			
Current liabilities			
Trade and note payables	18	1,784,701	2,432,898
Contract liabilities		37,680,959	41,942,500
Other payables and accrued charges		48,830,036	47,665,154
Borrowings	19	10,649,632	7,138,023
Lease liabilities		140,680	114,542
Derivative financial instruments		—	1,347
Taxation payable		8,516,010	7,623,170
		107,602,018	106,917,634
Net current assets		79,313,686	78,135,041
Total assets less current liabilities		127,683,453	127,779,621

CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2020

		As at	
	Note	30 June 2020 Unaudited RMB'000	31 December 2019 Audited RMB'000
Non-current liabilities			
Borrowings	19	60,776,875	63,883,633
Lease liabilities		525,044	563,665
Deferred tax liabilities	22	6,915,982	6,911,015
Deferred revenue		52,932	53,829
Other payables and accrued charges		1,486,773	1,175,663
		<u>69,757,606</u>	<u>72,587,805</u>
Net assets		<u>57,925,847</u>	<u>55,191,816</u>
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	20	18,035,015	18,035,015
Shares held under share award scheme		(81,577)	(81,577)
Other reserves	21	619,282	567,349
Retained earnings	21	23,248,084	22,202,721
		<u>41,820,804</u>	<u>40,723,508</u>
Non-controlling interests		16,105,043	14,468,308
Total equity		<u>57,925,847</u>	<u>55,191,816</u>

The notes on pages 35 to 69 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

	Unaudited	
	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Operating activities		
Net cash generated from operations	4,732,695	3,486,477
Interest received	380,471	92,818
Interest paid	(1,883,350)	(1,782,174)
Hong Kong profits tax paid	(8,866)	(924)
China taxation paid	(3,015,561)	(2,087,348)
Net cash generated from/(used in) operating activities	205,389	(291,151)
Investing activities		
Acquisition of subsidiaries, net cash paid	—	(4,806,427)
Purchases of property, plant and equipment and intangible assets	(227,127)	(93,296)
Proceeds from sale of investment properties	7,285	29,357
Proceeds from sale of property, plant and equipment	8,296	7,654
Dividends received from associate entities	228,945	156,547
Decrease in interests in associated entities and joint ventures	1,361,924	426,592
Increase in charged bank deposits	(2,176,640)	(1,910,069)
Capital injection in associated entities	(5,000)	(95,562)
Capital injection in joint ventures	(14,291)	(77,436)
Proceeds from disposal of a subsidiary	355,211	1,450,500
Decrease in amounts due from related companies	8,956	—
Increase in amounts due from associated entities	(2,060,419)	(5,101,809)
Increase in amounts due from related parties of non-controlling interests and non-controlling interests	(790,781)	(1,024,571)
Net cash used in investing activities	(3,303,641)	(11,038,520)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

	Unaudited Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Financing activities		
Capital contribution from non-controlling interests	424,079	146,756
Dividends paid to a non-controlling interest	—	(41,352)
Increase in amounts due to joint ventures and associated entities	378,141	4,580,283
(Decrease)/increase in amounts due to ultimate holding company	(163,356)	4,018,584
Increase/(decrease) in amounts due to intermediate holding company	485,912	(647,956)
Increase in amounts due to related companies and fellow subsidiaries	13,560	61,584
Decrease in amounts due to a shareholder	(28,404)	—
Decrease in amount due to related parties of non-controlling interests and non-controlling interests	(113,238)	(1,462,550)
Proceeds from bank borrowings	9,780,598	7,591,732
Repayment of bank borrowings	(9,342,480)	(5,932,207)
Proceeds from other borrowing from intermediate holding company	—	3,000,000
Repayment of other borrowing from intermediate holding company	—	(3,000,000)
Proceeds from other borrowings – others	1,498,800	6,528,424
Repayment of other borrowings – others	(1,986,784)	(949,000)
Increase/(decrease) of bank overdraft	3	(18)
Repayment for lease liabilities	(73,152)	(41,004)
Net cash generated from financing activities	873,679	13,853,276
(Decrease)/increase in cash and cash equivalents	(2,224,573)	2,523,605
Cash and cash equivalents at the beginning of period	24,105,500	21,990,455
Exchange gain/(loss) on cash and cash equivalents	19,619	(9,791)
Cash and cash equivalents at the end of period	<u>21,900,546</u>	<u>24,504,269</u>
Analysis of balances of cash and cash equivalents		
Bank balances and cash	21,900,590	24,504,308
Bank overdrafts	(44)	(39)
	<u>21,900,546</u>	<u>24,504,269</u>

The notes on pages 35 to 69 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2020

Unaudited					
Attributable to equity holders of the Company					
	Share capital RMB'000	Shares held under share award scheme RMB'000	Reserves RMB'000	Non- controlling interests RMB'000	Total RMB'000
Balance at 1 January 2020	18,035,015	(81,577)	22,770,070	14,468,308	55,191,816
Comprehensive income					
Profit for the period	—	—	1,994,723	302,493	2,297,216
Other comprehensive income					
Currency translation differences	—	—	(218,092)	—	(218,092)
Change in fair value of equity investments at fair value through other comprehensive income, net of tax	—	—	(43,026)	(2,475)	(45,501)
Cash flow hedges	—	—	(5,955)	—	(5,955)
Costs of hedging	—	—	61,004	—	61,004
Total other comprehensive income for the period, net of tax	—	—	(206,069)	(2,475)	(208,544)
Total comprehensive income for the period	—	—	1,788,654	300,018	2,088,672
Transactions with owners					
Dividend (note 13)	—	—	(691,358)	(49,249)	(740,607)
Capital injection to subsidiaries	—	—	—	1,385,966	1,385,966
Total transactions with owners	—	—	(691,358)	1,336,717	645,359
Balance at 30 June 2020	18,035,015	(81,577)	23,867,366	16,105,043	57,925,847

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2020

	Unaudited				
	Attributable to equity holders of the Company				
	Share capital RMB'000	Shares held under share award scheme RMB'000	Reserves RMB'000	Non- controlling interests RMB'000	Total RMB'000
Balance at 1 January 2019	12,759,402	(55,220)	21,122,385	9,085,151	42,911,718
Comprehensive income					
Profit for the period	—	—	1,870,140	888,978	2,759,118
Other comprehensive income					
Currency translation differences	—	—	(64,896)	—	(64,896)
Change in fair value of equity investments at fair value through other comprehensive income, net of tax	—	—	59,642	3,431	63,073
Cash flow hedges	—	—	727	—	727
Costs of hedging	—	—	(1,658)	—	(1,658)
Total other comprehensive income for the period, net of tax	—	—	(6,185)	3,431	(2,754)
Total comprehensive income for the period	—	—	1,863,955	892,409	2,756,364
Transactions with owners					
Issuance of shares	5,275,613	—	(291,673)	—	4,983,940
Dividend (note 13)	—	—	(694,158)	(41,352)	(735,510)
Capital injection to subsidiaries	—	—	—	1,033,484	1,033,484
Non-controlling interests arising on business combination	—	—	—	1,694,642	1,694,642
Acquisition of shares under share award scheme	—	(33,917)	—	—	(33,917)
Shares granted to employees	—	8,204	—	—	8,204
Total transactions with owners	5,275,613	(25,713)	(985,831)	2,686,774	6,950,843
Balance at 30 June 2019	18,035,015	(80,933)	22,000,509	12,664,334	52,618,925

The notes on pages 35 to 69 form an integral part of this condensed consolidated interim financial information.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1 GENERAL INFORMATION

Yuexiu Property Company Limited (the "Company") and its subsidiaries (together, the "Group") is principally engaged in development, selling and management of properties and holding of investment properties. The Group's operations are primarily conducted in Mainland China ("China") and Hong Kong.

The Company is a limited liability company incorporated in Hong Kong. The address of its registered office is 26th Floor, Yue Xiu Building, 160 Lockhart Road, Wanchai, Hong Kong.

The Company's shares are listed on The Stock Exchange of Hong Kong Limited.

This condensed consolidated interim financial information is presented in Renminbi ("RMB"), unless otherwise stated. This condensed consolidated interim financial information have been approved for issue by the Board of Directors on 24 August 2020.

The financial information relating to the year ended 31 December 2019 that is included in the condensed consolidated interim financial information for the six months ended 30 June 2020 as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Company has delivered the financial statements for the year ended 31 December 2019 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance (Cap. 622).

The Company's auditor has reported on those financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance (Cap. 622).

The outbreak of the 2019 Novel Coronavirus ("COVID-19") has brought unprecedented challenges and added uncertainties to the economy. COVID-19 may affect the financial performance and position of the industry of real estate including the construction and delivery of properties, rental revenue and occupancy rate of investment properties, allowance for expected credit losses on trade and other receivables, fair value of investment properties and so on. Since the outbreak of COVID-19, the Group has been keeping continuous attention to the situation of COVID-19 and reacted actively to its impact on the financial position and operating results of the Group. As at the date that the condensed consolidated interim financial information is authorised for issuance, COVID-19 does not have any material adverse impact on the financial position and operating results of the Group.

2 BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2020 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, 'Interim Financial Reporting' issued by the Hong Kong Institute of Certified Public Accountants. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2019, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

3 ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of 2019 and corresponding interim reporting period, except for the estimation of income tax and the adoption of new and amended standards and interpretation as set out below.

- (a) The following amendments to existing standards and interpretation are mandatory for adoption for the financial year beginning 1 January 2020 for the Group:

HKAS 1 and HKAS 8 (Amendments)	Definition of Material
HKFRS 3 (Amendments)	Definition of a Business
HKFRS 9, HKFRS 7 and HKAS 39 (Amendments)	Interest Rate Benchmark Reform
HKFRS 16 (Amendments)	COVID-19-related Rent Concessions
Conceptual for Financial Reporting 2018	Revised Conceptual for Financial Reporting

The Group has assessed the impact of the adoption of these amended standards and interpretation that are effective for the first time for this interim period. The adoption of these amended standards and interpretation did not result in any significant impact on the results and financial position of the Group.

- (b) The following new standards and amendments to existing standards have been issued but are not effective for the financial year beginning 1 January 2020 and have not been early adopted:

		Effective for accounting periods beginning on or after
HKFRS 17	Insurance Contracts	1 January 2021
HKAS 1 (Amendments)	Classification of Liabilities as Current or Non-current	1 January 2023
HKFRS 3 (Amendments)	Business Combinations	1 January 2022
HKAS 16 (Amendments)	Property, Plant and Equipment	1 January 2022
HKAS 37 (Amendments)	Provisions, Contingent Liabilities and Contingent Assets	1 January 2022
HKFRS 1 (Amendments)	First-time Adoption of HKFRS	1 January 2022
Annual improvements to HKFRS 9	Financial Instruments	1 January 2022
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

The above new standards and amendments to existing standards are effective for annual periods beginning on or after 1 January 2021 and have not been applied in preparing these condensed consolidated interim financial information. None of these is expected to have a significant effect on the condensed consolidated interim financial information of the Group.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of condensed consolidated interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual financial statements for the year ended 31 December 2019.

5 FINANCIAL RISK MANAGEMENT

5.1 FINANCIAL RISK FACTORS

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The condensed consolidated interim financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2019.

(a) Liquidity risk

Due to the capital intensive nature of the Group's business, the Group ensures that it maintains sufficient cash and credit lines to meet its liquidity requirements.

Management monitors rolling forecasts of the Group's liquidity reserve which comprises undrawn borrowing facilities and cash and cash equivalents on the basis of expected cash flows. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity dates. The amounts disclosed in the table are the contractual undiscounted cash flows.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

5 FINANCIAL RISK MANAGEMENT (Continued)**5.1 FINANCIAL RISK FACTORS** (Continued)(a) *Liquidity risk* (Continued)

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
At 30 June 2020					
Borrowings (principal amount plus interest)	13,782,946	19,581,177	43,012,415	3,641,116	80,017,654
Trade and note payables (note 18)	1,784,701	—	—	—	1,784,701
Other payables and accrued charges	45,608,195	223,929	1,427,483	—	47,259,607
Lease liabilities	169,832	94,690	167,874	409,318	841,714
Financial guarantees (note 23)	24,634,152	—	—	—	24,634,152
At 31 December 2019					
Borrowings (principal amount plus interest)	10,371,372	22,789,927	42,350,318	5,019,851	80,531,468
Trade and note payables (note 18)	2,432,898	—	—	—	2,432,898
Other payables and accrued charges	44,354,511	84,794	1,253,640	—	45,692,945
Lease liabilities	131,735	120,802	161,636	435,785	849,958
Financial guarantees (note 23)	22,125,405	—	—	—	22,125,405
Derivative financial instruments	1,347	—	—	—	1,347

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

5 FINANCIAL RISK MANAGEMENT *(Continued)***5.2 CAPITAL RISK MANAGEMENT**

The Group's objectives when managing capital are to

- safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders, and
- maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group's policy is to borrow centrally, using a mixture of long-term and short-term borrowing facilities, to meet anticipated funding requirements. These borrowings, together with cash generated from operations, are on-lent or contributed as equity to certain subsidiaries.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings and lease liabilities less cash and cash equivalents. Total capital is calculated as equity, as shown in the condensed consolidated balance sheet plus net debt.

The gearing ratios at 30 June 2020 and 31 December 2019 were as follows:

	30 June 2020 RMB'000	31 December 2019 RMB'000
Total borrowings (note 19)	71,426,507	71,021,656
Lease liabilities	665,724	678,207
Less: Cash and cash equivalents	(21,900,590)	(24,105,541)
Net debt	50,191,641	47,594,322
Total equity (including non-controlling interests)	57,925,847	55,191,816
Total capital	108,117,488	102,786,138
Gearing ratio	46.4%	46.3%

The total capital amount is subject to externally imposed capital requirement and the Group has complied with the capital requirement during the period.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

5 FINANCIAL RISK MANAGEMENT *(Continued)***5.3 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS***Fair value hierarchy*

To provide an indication about the reliability of the inputs used in determining fair value, the Group classifies its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

The following table presents the Group's financial assets and liabilities that are measured at fair value at 30 June 2020 and 31 December 2019 on a recurring basis.

At 30 June 2020	Level 2 RMB'000	Level 3 RMB'000
Financial assets		
Derivative financial instruments – foreign currency forwards	229,900	—
Financial assets at fair value through other comprehensive income (“FVOCI”)	—	1,227,266
Total financial assets	229,900	1,227,266
At 31 December 2019	Level 2 RMB'000	Level 3 RMB'000
Financial assets		
Derivative financial instruments – foreign currency forwards	65,179	—
Financial assets at FVOCI	—	1,293,264
Total financial assets	65,179	1,293,264
Financial liabilities		
Derivative financial instrument – embedded derivative of exchangeable bond	—	1,347

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and equity securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

There were no transfer between fair value hierarchy levels during the period.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

5 FINANCIAL RISK MANAGEMENT *(Continued)***5.3 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS** *(Continued)**Valuation techniques used to determine fair value*

Specific valuation techniques used to value financial instruments include:

- The fair value of financial assets at FVOCI is derived through the Guideline Public Company Method by using the appropriate market multiples of comparable public company peers in the same or a similar industry.
- The fair value of foreign currency forwards is determined using present value of future cash flows based on the forward exchange rates at the balance sheet date.
- The fair value of embedded derivative of exchangeable bond is determined using binomial tree method.

Fair value measurements using significant unobservable inputs (Level 3)

The following table presents the changes in level 3 instrument for the six months ended 30 June 2020:

	Financial assets at FVOCI RMB'000	Derivative financial instruments – embedded derivative of exchangeable bond RMB'000	Total RMB'000
Opening balance at 1 January	1,293,264	(1,347)	1,291,917
Mature in this period	—	1,347	1,347
Unrealised fair value changes recognised in other comprehensive income	(65,998)	—	(65,998)
Closing balance at 30 June	1,227,266	—	1,227,266
Includes unrealised loss in profit or loss attributable to balances held at the end of the reporting period	—	—	—

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

5 FINANCIAL RISK MANAGEMENT *(Continued)***5.3 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS** *(Continued)**Fair value measurements using significant unobservable inputs (Level 3) (Continued)*

The following table presents the changes in level 3 instrument for the six months ended 30 June 2019:

	Financial assets at FVOCI RMB'000	Derivative financial instruments – embedded derivative of exchangeable bond RMB'000	Total RMB'000
Opening balance at 1 January	1,228,635	—	1,228,635
Unrealised fair value loss recognised in profit or loss	—	(15,899)	(15,899)
Unrealised fair value changes recognised in other comprehensive income	91,485	—	91,485
Closing balance at 30 June	<u>1,320,120</u>	<u>(15,899)</u>	<u>1,304,221</u>
Includes unrealised loss in profit or loss attributable to balances held at the end of the reporting period	<u>—</u>	<u>(15,899)</u>	<u>(15,899)</u>

There were no changes made to any of the valuation techniques applied as at 31 December 2019.



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

5 FINANCIAL RISK MANAGEMENT *(Continued)***5.3 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS** *(Continued)*

Fair value measurements using significant unobservable inputs (Level 3) (Continued)

Valuation process

The Group measures its financial assets at FVOCI and embedded derivative of exchangeable bond at fair value. The level 3 financial assets were revalued by Jones Lang LaSalle Incorporated ("JLL"), an independent qualified valuer not related to the Group, who holds recognised relevant professional qualification at 30 June 2020.

The Group's finance department includes a team that reviews the valuations performed by the independent valuer for financial reporting purposes, including level 3 fair values. This team reports directly to the senior management. Discussions of valuation processes and results are held between the management and valuer at least once every six months, in line with the Group's interim and annual reporting dates.

The main Level 3 input used by the Group for financial assets at FVOCI pertains to the discount for lack of marketability. The discount for lack of marketability is quantified on the basis of relevant restricted stock studies and represents the most significant unobservable input applied to arrive at the fair value measurement.

5.4 FAIR VALUE OF OTHER FINANCIAL ASSETS AND LIABILITIES

The Group also has a number of financial instruments which are not measured at fair value in the balance sheet. For the majority of these instruments, the fair values are not materially different to their carrying amounts, since the interest receivable/payable is either close to current market rates or the instruments are short-term in nature.

- Trade receivables
- Cash and cash equivalents and charged bank deposits
- Other receivables
- Other payables and accrued charges
- Trade and note payables
- Borrowings
- Lease liabilities

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

6 SEGMENT INFORMATION

The chief operating decision-maker has been identified as the executive directors. Management determines the operating segments based on the Group's internal reports, which are then submitted to the executive directors for performance assessment and resources allocation.

The executive directors consider the business by nature of business activities and assess the performance of property development, property management, property investment and others.

The Group's operating and reportable segments under HKFRS 8 and the types of turnover are as follows:

Property development	sales of property development activities
Property management	property management services
Property investment	property rentals
Others	revenue from real estate agency and decoration services, etc.

The executive directors assess the performance of the operating segments based on a measure of segment results. This measurement basis excludes the effects of non-recurring expenditure from the operating segments and other unallocated operating costs. Other information provided, except as noted below, to the executive directors are measured in a manner consistent with that in the condensed consolidated interim financial information.

Total assets excluded deferred tax assets, prepaid taxation and corporate assets. Corporate assets are not directly attributable to segments.

Sales between segments are carried out on terms equivalent to those that prevail on arm's length transactions. The revenue from external parties reported to the executive directors is measured in a manner consistent with that in the condensed consolidated statement of profit or loss.



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

6 SEGMENT INFORMATION *(Continued)*

The following table presents revenue and profit information regarding the Group's operating segments for the six months ended 30 June 2020 and 30 June 2019 respectively.

	Property development RMB'000	Property management RMB'000	Property investment RMB'000	Others RMB'000	Group RMB'000
Six months ended 30 June 2020					
Revenue	22,541,774	582,721	304,263	1,397,991	24,826,749
Inter-segment revenue	—	(130,629)	(13,119)	(969,117)	(1,112,865)
Revenue from external customers	22,541,774	452,092	291,144	428,874	23,713,884
Revenue from contracts with customers:					
Recognised at a point in time	22,541,774	—	—	277,635	22,819,409
Recognised over time	—	452,092	—	151,239	603,331
Revenue from other sources:					
Rental income	—	—	291,144	—	291,144
	22,541,774	452,092	291,144	428,874	23,713,884
Segment results	5,330,093	59,906	153,700	91,114	5,634,813
Depreciation and amortisation	(90,882)	(34,140)	—	(26,749)	(151,771)
Fair value losses on revaluation of investment properties, net	—	—	(18,042)	—	(18,042)
Share of (loss)/profit of					
– joint ventures	(36,666)	—	—	(8,535)	(45,201)
– associated entities	105,728	—	(75,917)	25,153	54,964

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

6 SEGMENT INFORMATION *(Continued)*

	Property development RMB'000	Property management RMB'000	Property investment RMB'000	Others RMB'000	Group RMB'000
Six months ended					
30 June 2019					
Revenue	20,510,219	483,786	356,708	1,101,852	22,452,565
Inter-segment revenue	—	(95,261)	(19,647)	(549,530)	(664,438)
Revenue from external customers	<u>20,510,219</u>	<u>388,525</u>	<u>337,061</u>	<u>552,322</u>	<u>21,788,127</u>
Revenue from contracts with customers:					
Recognised at a point in time	20,510,219	—	—	231,816	20,742,035
Recognised over time	—	388,525	—	320,506	709,031
Revenue from other sources:					
Rental income	—	—	337,061	—	337,061
	<u>20,510,219</u>	<u>388,525</u>	<u>337,061</u>	<u>552,322</u>	<u>21,788,127</u>
Segment results	<u>5,186,610</u>	<u>29,941</u>	<u>237,572</u>	<u>112,232</u>	<u>5,566,355</u>
Depreciation and amortisation	<u>(60,418)</u>	<u>(14,642)</u>	<u>—</u>	<u>(15,358)</u>	<u>(90,418)</u>
Fair value losses on revaluation of investment properties, net	<u>—</u>	<u>—</u>	<u>(16,232)</u>	<u>—</u>	<u>(16,232)</u>
Share of (loss)/profit of					
– joint ventures	(46,546)	—	—	(11,145)	(57,691)
– associated entities	<u>80,638</u>	<u>—</u>	<u>260,875</u>	<u>4,385</u>	<u>345,898</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

6 SEGMENT INFORMATION (Continued)

	Property development RMB'000	Property management RMB'000	Property investment RMB'000	Others RMB'000	Group RMB'000
As at 30 June 2020					
Segment assets	198,327,856	1,143,284	9,428,580	2,228,539	211,128,259
Interests in joint ventures	6,446,544	—	—	51,868	6,498,412
Interests in associated entities	3,054,751	—	7,902,558	1,026,825	11,984,134
Total reportable segments' assets	<u>207,829,151</u>	<u>1,143,284</u>	<u>17,331,138</u>	<u>3,307,232</u>	<u>229,610,805</u>
Total reportable segments' assets include: Additions to non-current assets (note)	<u>128,230</u>	<u>84,816</u>	<u>—</u>	<u>98,750</u>	<u>311,796</u>
As at 31 December 2019					
Segment assets	196,792,224	1,315,120	9,438,108	2,424,198	209,969,650
Interests in joint ventures	7,116,910	—	—	45,111	7,162,021
Interests in associated entities	3,615,060	—	8,224,747	990,822	12,830,629
Total reportable segments' assets	<u>207,524,194</u>	<u>1,315,120</u>	<u>17,662,855</u>	<u>3,460,131</u>	<u>229,962,300</u>
Total reportable segments' assets include: Additions to non-current assets (note)	<u>375,270</u>	<u>60,483</u>	<u>—</u>	<u>653,328</u>	<u>1,089,081</u>

Note: Non-current assets represent non-current assets other than properties under development, financial instruments, interests in joint ventures, interests in associated entities and deferred tax assets.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

6 SEGMENT INFORMATION *(Continued)*

A reconciliation of total segment results to total profit before taxation is provided as follows:

Six months ended 30 June		
	2020	2019
	RMB'000	RMB'000
Segment results	5,634,813	5,566,355
Unallocated operating costs (note)	(69,395)	(43,170)
Other gains, net (note 8)	10,577	797,544
Operating profit	5,575,995	6,320,729
Finance income (note 9)	326,745	258,670
Finance costs (note 10)	(505,379)	(634,102)
Share of (loss)/profit of		
– joint ventures	(45,201)	(57,691)
– associated entities	54,964	345,898
Profit before taxation	5,407,124	6,233,504

Note: Unallocated operating costs include mainly staff salaries and other operating expenses of the Company.

A reconciliation of total segment assets to total assets is provided as follows:

As at		
	30 June	31 December
	2020	2019
	RMB'000	RMB'000
Total reportable segments' assets	229,610,805	229,962,300
Deferred tax assets (note 22)	814,830	665,128
Prepaid taxation	3,099,498	2,416,865
Corporate assets (note)	1,760,338	1,652,962
Total assets	235,285,471	234,697,255

Note: Corporate assets represent property, plant and equipment, right-of-use assets, derivative financial instruments, other receivables and cash and cash equivalent of the Company.

For the six months ended 30 June 2020, no geographical segment analysis is shown as more than 90% of the Group's revenue are derived from activities in and from customers located in the China and more than 90% of the carrying values of the Group's non-current assets excluding deferred income tax are situated in China (six months ended 30 June 2019: same).

For the six months ended 30 June 2020, the Group does not have any single customer with the transaction value over 10% of the total external revenue (six months ended 30 June 2019: same).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

7 EXPENSES BY NATURE

Cost of sales, selling and marketing costs and administrative expenses included the following:

Six months ended 30 June		
	2020	2019
	RMB'000	RMB'000
Other tax and surcharges	132,570	158,734
Amortisation of right-of-use assets	87,797	56,507
Depreciation of property, plant and equipment (note 14)	42,613	33,911
Amortisation of intangible assets	21,361	29,610
Impairment of properties held for sale	161,144	20,523

8 OTHER GAINS, NET

Six months ended 30 June		
	2020	2019
	RMB'000	RMB'000
Remeasurement gains on a joint venture	—	765,623
Gain on bargain purchase on acquisitions	—	11,807
Remeasurement gains on interests in associated entities	—	636
Others	10,577	19,478
	10,577	797,544

9 FINANCE INCOME

Six months ended 30 June		
	2020	2019
	RMB'000	RMB'000
Interest income from bank deposits	120,770	91,803
Interest income from loans to associated entities (note 26 (b)(VI), (VII), (X), (XI))	86,172	165,852
Interest income from loans to joint ventures (note 26 (b)(V), (VIII), (IX))	119,803	1,015
	326,745	258,670

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

10 FINANCE COSTS

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Interest on borrowings and bank overdrafts	866,723	870,453
Interest on other borrowings	969,441	731,145
Interest on loan from non-controlling interest ("NCI") with significant influence over the subsidiaries (note 26 (b)(XIII), (XIV), (XV), (XVI))	4,770	145,088
Interest on loan from NCI and related parties of NCI (note)	72,958	51,677
Interest on loan from intermediate holding company (note 26 (b)(II))	32,174	41,166
Interest on loan from a shareholder (note 26 (b)(XII))	232,180	24,383
Interest on loan from an associated entity (note 26 (b)(III))	9,355	9,943
Interest on loan from a fellow subsidiary (note 26 (b)(III))	546	2,765
Interest expense on lease liabilities	15,516	9,569
Net fair value gains on derivative financial instruments	(7,599)	(7,158)
Net foreign exchange gain on financing activities	(14,623)	(51,639)
Total borrowing costs incurred	2,181,441	1,827,392
Less: amount capitalised as properties under development and property, plant and equipment	(1,676,062)	(1,193,290)
	505,379	634,102

Note: The amount represents interest on the amounts of subsidiaries of the Group due to NCI and related parties of NCI. Out of the total amount of approximately RMB4,029 million, the interest bearing balance is approximately RMB2,102 million as at 30 June 2020 (31 December 2019: RMB2,332 million) and bears interest at a weighted average rate of 6.71% per annum (2019: 5.79% per annum). The balance which is included in other payables and accrued charges is repayable on demand and denominated in RMB.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

11 TAXATION

- (a) Hong Kong profits tax has been provided at the rate of 16.5 percent (2019: 16.5 percent) on the estimated assessable profit for the period.
- (b) China enterprise income taxation is provided on the profit of the Group's subsidiaries, associated entities and joint ventures in China at 25 percent (2019: 25 percent).

In addition, dividend distribution out of profit of foreign-invested enterprises earned after 1 January 2008 is subject to corporate withholding income tax at tax rates ranging from 5 percent to 10 percent. During the period, withholding income tax was provided for the dividend distributed and undistributed profit, recognised based on HKFRS, of the Group's subsidiaries, joint ventures and associated entities in China at tax rates ranging from 5 percent to 10 percent (2019: 5 percent to 10 percent).

- (c) China land appreciation tax is levied at progressive rates ranging from 30 percent to 60 percent on the appreciation of land value, being the proceeds of sales of properties less deductible expenditure including costs of land, development and construction.
- (d) The amount of taxation charged to the condensed consolidated statement of profit or loss comprises:

Six months ended 30 June		
	2020 RMB'000	2019 RMB'000
Current taxation		
– China enterprise income tax	1,391,340	1,388,666
– China land appreciation tax	1,714,294	2,086,764
– Corporate withholding income tax	128,512	—
Deferred taxation		
– Origination and reversal of temporary differences	(272,268)	(182,817)
– China land appreciation tax	(19,932)	(3,095)
– Corporate withholding income tax on undistributed profits	167,962	184,868
	3,109,908	3,474,386

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

12 EARNINGS PER SHARE**BASIC**

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company over the weighted average number of ordinary shares in issue during the period.

Six months ended 30 June		
	2020	2019
Profit attributable to equity holders of the Company (RMB'000)	1,994,723	1,870,140
Weighted average number of ordinary shares in issue ('000)	15,482,280	13,428,298
Basic earnings per share (RMB)	0.1288	0.1393

DILUTED

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Since there was no dilutive potential ordinary shares during the six months ended 30 June 2020, diluted earnings per share is equal to basic earnings per share (six months ended 30 June 2019: same).

13 DIVIDENDS

Six months ended 30 June		
	2020 RMB'000	2019 RMB'000
2019 final, declared and unpaid, of HKD0.049 equivalent to RMB0.044 (2018: HKD0.051 equivalent to RMB0.044) per ordinary share	691,358	694,158
2020 interim, proposed, of HKD0.057 equivalent to RMB0.051 (2019: HKD0.053 equivalent to RMB0.047) per ordinary share	789,596	727,667

The interim dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date. It will be recognised in shareholders' equity in the year ended 31 December 2020.



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

14 PROPERTY, PLANT AND EQUIPMENT

	2020 RMB'000	2019 RMB'000
At 1 January	2,505,924	1,994,812
Exchange differences	158	35
Additions	163,178	93,296
Acquisition of subsidiaries	—	689
Disposals	(7,738)	(7,394)
Depreciation (note 7)	(42,613)	(33,911)
At 30 June	<u>2,618,909</u>	<u>2,047,527</u>

15 RIGHT-OF-USE ASSETS

	Land use rights RMB'000	Properties RMB'000	Total RMB'000
At 1 January 2020	3,412,710	653,078	4,065,788
Additions	—	85,891	85,891
Amortisation	(40,074)	(82,536)	(122,610)
At 30 June 2020	<u>3,372,636</u>	<u>656,433</u>	<u>4,029,069</u>
At 1 January 2019	207,569	47,711	255,280
Additions	—	368,302	368,302
Amortisation	(5,501)	(51,006)	(56,507)
At 30 June 2019	<u>202,068</u>	<u>365,007</u>	<u>567,075</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

16 INVESTMENT PROPERTIES

	2020 RMB'000	2019 RMB'000
At 1 January	9,438,108	10,865,470
Exchange differences	15,116	3,016
Disposals	(6,602)	(17,521)
Fair value losses, net	(18,042)	(16,232)
At 30 June	<u>9,428,580</u>	<u>10,834,733</u>

17 TRADE RECEIVABLES

The Group's credit period of the trade receivables is 90 days from the date of invoice. The ageing analysis of trade receivables is as follows:

	As at	
	30 June 2020 RMB'000	31 December 2019 RMB'000
0 - 30 days	52,569	29,920
31 - 180 days	25,190	19,760
181 - 365 days	12,452	11,809
Over 1 year	18,564	15,625
	<u>108,775</u>	<u>77,114</u>
Less: provision for impairment of trade receivables	(8,805)	(8,805)
	<u>99,970</u>	<u>68,309</u>



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

18 TRADE AND NOTE PAYABLES

The ageing analysis of trade and note payables is as follows:

As at		
	30 June 2020 RMB'000	31 December 2019 RMB'000
0 - 30 days	415,384	585,856
31 - 90 days	819,170	676,356
91 - 180 days	354,716	967,073
181 - 365 days	172,366	147,875
1 - 2 years	13,331	42,680
Over 2 years	9,734	13,058
	1,784,701	2,432,898

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

19 BORROWINGS

	As at	
	30 June 2020 RMB'000	31 December 2019 RMB'000
Non-current		
Long-term bank borrowings		
– Secured	8,973,540	9,784,060
– Unsecured	17,894,888	15,233,754
Other borrowings (a)		
– Secured	373,660	570,160
– Unsecured	33,534,787	38,295,659
	60,776,875	63,883,633
Current		
Bank overdrafts	44	41
Short-term bank borrowings		
– Unsecured	1,000	49,377
Current portion of long-term bank borrowings		
– Secured	692,000	2,196,840
– Unsecured	3,094,148	2,790,372
Other borrowings (a)		
– Secured	550,000	350,000
– Unsecured	6,312,440	1,751,393
	10,649,632	7,138,023
Total borrowings	71,426,507	71,021,656



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

19 BORROWINGS *(Continued)***(a) OTHER BORROWINGS***(i) PRC corporate bonds*

In 2016, the Group issued aggregated nominal value of RMB8,000 million corporate bonds with interest rates ranging from 2.95% to 3.19% per annum and with maturity between 3 years to 7 years. The net proceed, after deducting the issuance costs, amounted to RMB7,968 million. In 2019, an amount of RMB1,000 million of corporate bonds were matured and the issuer adjusted certain coupon rates.

In 2018, the Group issued aggregated nominal value of RMB1,500 million corporate bonds with interest rates ranging from 4.24% to 4.25% per annum and with maturity between 3 years to 5 years. The net proceed, after deducting the issuance costs, amounted to approximately RMB1,494 million.

In 2019, the Group issued aggregated nominal value of RMB2,500 million corporate bonds with interest rates ranging from 3.85% to 3.93% per annum and with maturity between 3 years to 5 years. The net proceed, after deducting the issuance costs, amounted to RMB2,491 million.

In 2019, the Group issued aggregated nominal value of RMB1,500 million corporate bonds with interest rates of 3.60% per annum and with maturity of 5 years. The net proceed, after deducting the issuance costs, amounted to RMB1,494 million.

In 2019, the Group issued aggregated nominal value of RMB1,500 million corporate bonds with interest rates of 3.83% per annum and with maturity of 5 years. The net proceed, after deducting the issuance costs, amounted to RMB1,494 million.

In 2020, the Group issued aggregated nominal value of RMB1,500 million corporate bonds with interest rates of 3.13% per annum and with maturity of 5 years. The net proceed, after deducting the issuance costs, amounted to RMB1,494 million.

Except for the PRC corporate bonds amounting to RMB9,250 million, other PRC corporate bonds contain the early redemption options, which means the Group shall be entitled to adjust the coupon rate whereas the investors shall be entitled to sell back in whole or in part the bonds.

Early redemption options are regarded as embedded derivatives not closely related to the host contract. The directors consider that the fair value of the early redemption options was insignificant as at 30 June 2020 and 31 December 2019.

Guangzhou Yue Xiu Holdings Limited ("Guangzhou Yue Xiu"), the ultimate holding company, provides guarantee for above corporate bond (note 26(e)).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

19 BORROWINGS *(Continued)***(a) OTHER BORROWINGS** *(Continued)**(ii) Private placement note*

In 2019, the Group issued aggregated nominal value of RMB1,800 million private placement note with interest rates of 4.03% per annum and with maturity of 5 years. The net proceed, after deducting the issuance costs, amounted to RMB1,797 million.

(iii) Medium term notes

In 2013, the Group issued medium-term notes of USD500 million with an interest rate of 4.50% per annum and with maturity in 2023.

In 2014, the Group issued medium term notes of HKD2,300 million with an interest rate of 6.10% per annum and with maturity in 2029.

In 2018, the Group borrowed a loan of RMB1,111 million with a 9-year maturity. The interest rates are ranging from 4.98% to 5.50% per annum.

In 2018, the Group issued medium term notes of USD1,200 million with interest rates ranging from 4.875% to 5.375% per annum and with maturity between 2021 to 2023. The net proceed, after deducting the issuance costs, amounted to USD1,191 million.

(iv) Exchangeable bond

The Group issued exchangeable bonds with an aggregate cash proceeds of HKD1.1 billion, which was matured on 27 April 2020. The bonds bear interest at the rate of 1.875% per annum. There was no bondholder to exercise the right to exchange its bonds with the share of units in Yuexiu Real Estate Investment Trust ("Yuexiu REIT") and the exchange bond was repaid in 2020.



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

19 BORROWINGS *(Continued)*

The maturity of borrowings is as follows:

	Bank borrowings and overdrafts		Other borrowings	
	As at		As at	
	30 June 2020 RMB'000	31 December 2019 RMB'000	30 June 2020 RMB'000	31 December 2019 RMB'000
Within one year	3,787,192	5,036,630	6,862,440	2,101,393
In the second year	7,468,621	6,742,277	9,773,572	13,527,890
In the third to fifth year	18,439,348	16,431,829	22,051,287	22,955,526
Over five years	960,459	1,843,708	2,083,588	2,382,403
	30,655,620	30,054,444	40,770,887	40,967,212

20 SHARE CAPITAL

	Number of shares 2020 ('000)	Number of shares 2019 ('000)	Share capital 2020 RMB'000	Share capital 2019 RMB'000
	At 1 January	15,482,280	12,401,307	18,035,015
Issues of ordinary shares during the period				
Acquisition of a subsidiary, net of transaction cost and tax	—	3,080,973	—	5,275,613
At 30 June	15,482,280	15,482,280	18,035,015	18,035,015

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

21 RESERVES

	Statutory reserves (note (a)) RMB'000	Exchange fluctuation reserve RMB'000	Financial assets at FVOCI reserve RMB'000	Hedging reserve RMB'000	Other reserve RMB'000	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2020	728,636	(708,415)	788,000	50,801	(291,673)	22,202,721	22,770,070
Currency translation differences	—	(218,092)	—	—	—	—	(218,092)
Change in the fair value of equity investments at FVOCI							
– gross	—	—	(62,698)	—	—	—	(62,698)
– tax	—	—	15,675	—	—	—	15,675
– effect of withholding tax	—	—	3,997	—	—	—	3,997
Cash flow hedges	—	—	—	(5,955)	—	—	(5,955)
Costs of hedging	—	—	—	61,004	—	—	61,004
Profit attributable to shareholders	—	—	—	—	—	1,994,723	1,994,723
Transfer to statutory reserves	258,002	—	—	—	—	(258,002)	—
Dividend (note 13)	—	—	—	—	—	(691,358)	(691,358)
At 30 June 2020	986,638	(926,507)	744,974	105,850	(291,673)	23,248,084	23,867,366

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

21 RESERVES (Continued)

	Statutory reserves (note (a)) RMB'000	Exchange fluctuation reserve RMB'000	Financial assets at FVOCI reserve RMB'000	Hedging reserve RMB'000	Other reserve RMB'000	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2019	213,964	(503,324)	745,865	(834)	—	20,666,714	21,122,385
Currency translation differences	—	(64,896)	—	—	—	—	(64,896)
Change in the fair value of equity investments at FVOCI							
– gross	—	—	86,911	—	—	—	86,911
– tax	—	—	(21,728)	—	—	—	(21,728)
– effect of withholding tax	—	—	(5,541)	—	—	—	(5,541)
Cash flow hedges	—	—	—	727	—	—	727
Costs of hedging	—	—	—	(1,658)	—	—	(1,658)
Profit attributable to shareholders	—	—	—	—	—	1,870,140	1,870,140
Transfer to statutory reserves	9,988	—	—	—	—	(9,988)	—
Acquisition of subsidiary, net of transaction cost and tax	—	—	—	—	(291,673)	—	(291,673)
Dividend (note 13)	—	—	—	—	—	(694,158)	(694,158)
At 30 June 2019	<u>223,952</u>	<u>(568,220)</u>	<u>805,507</u>	<u>(1,765)</u>	<u>(291,673)</u>	<u>21,832,708</u>	<u>22,000,509</u>

Note:

- (a) Statutory reserves represent enterprise expansion and general reserve funds set up by the subsidiaries, joint ventures and associated entities in China. As stipulated by regulations in China, the Company's subsidiaries, joint ventures and associated entities established and operated in China are required to appropriate a portion of their after-tax profits (after offsetting prior year losses) to the enterprise expansion and general reserve funds, at rates determined by their respective boards of directors. According to the Regulations for the Implementation of the Law of The People's Republic of China on Joint Ventures Using Chinese and Foreign Investment, upon approval, the general reserve funds may be used for making up losses and increasing capital while the enterprise expansion funds may be used for increasing capital only.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

22 DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using the applicable income tax rate.

Deferred taxation as at 30 June 2020 and 31 December 2019 represents:

As at		
	30 June 2020 RMB'000	31 December 2019 RMB'000
Deferred tax assets		
– China enterprise income tax	814,830	665,128
Deferred tax liabilities		
– Hong Kong profits tax	30,639	28,956
– China enterprise income tax	5,718,135	5,694,919
– China land appreciation tax	1,167,208	1,187,140
	<u>6,915,982</u>	<u>6,911,015</u>

23 GUARANTEES

As at		
	30 June 2020 RMB'000	31 December 2019 RMB'000
Guarantees for mortgage facilities granted to certain property purchasers of the Group's properties (note (a))	21,374,104	20,090,477
Guarantee for banking and loan facility granted to associated entities (note (b))	978,228	974,928
Guarantees for banking and loan facilities granted to joint ventures (note (b))	2,281,820	1,060,000
	<u>24,634,152</u>	<u>22,125,405</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

23 GUARANTEES *(Continued)*

Notes:

- (a) The Group provided guarantees in respect of mortgage facilities granted by certain banks relating to the mortgage loans arranged for certain purchasers of the Group's properties. Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, the Group is responsible for repaying the outstanding mortgage principals together with accrued interest and penalty owed by the defaulted purchasers to the banks and the Group is entitled to take over the legal title and possession of the related properties. Such guarantees shall terminate upon issuance of the relevant property ownership certificates.
- (b) As at 30 June 2020, certain subsidiaries of the Group provided guarantee up to a limit of approximately RMB3,260 million (31 December 2019: RMB2,035 million) in respect of loans borrowed by joint ventures and associated entities of the Group, among which, guarantee of approximately RMB1,280 million (31 December 2019: RMB1,007 million) was utilised and guarantee of approximately RMB1,980 million (31 December 2019: RMB1,028 million) was not utilised yet.

24 CAPITAL COMMITMENTS

As at		
	30 June 2020 RMB'000	31 December 2019 RMB'000
Capital commitments in respect of property, plant and equipment:		
Contracted but not provided for	410,466	449,315
Authorised but not contracted for	269,351	276,641
	679,817	725,956

25 SECURITIES FOR BANKING FACILITIES

At 30 June 2020, certain banking facilities and loans granted to the Group were secured by:

- (a) mortgages of certain of the Group's properties under development, properties held for sale, investment properties and property, plant and equipment with aggregate carrying values of approximately RMB23,640 million (31 December 2019: RMB29,051 million), RMB18 million (31 December 2019: RMB170 million), RMB6,690 million (31 December 2019: RMB6,690 million) and RMB702 million (31 December 2019: RMB686 million) respectively; and
- (b) mortgages of certain of the Group's right-of-use assets with an aggregate carrying value of RMB7 million (31 December 2019: RMB7 million).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

26 SIGNIFICANT RELATED PARTY TRANSACTIONS

(A) RELATED PARTIES

The Company's ultimate holding company is Guangzhou Yue Xiu. The table below summarises the names of related parties, with whom the Group has significant transactions during the period ended 30 June 2020, and their relationship with the Company as at 30 June 2020:

Significant related parties	Relationship with the Company
Guangzhou Yue Xiu	Ultimate holding company
廣州地鐵集團有限公司 ("Guangzhou Metro")	A shareholder
Yue Xiu Enterprises (Holdings) Limited ("YXE")	Intermediate holding company
Yuexiu REIT	An associated entity
杭州星日房地產開發有限公司 ("杭州星日")	An associated entity
廣州綠嶸房地產開發有限公司 ("綠嶸")	An associated entity
Chong Hing Bank Limited ("CHB")	A fellow subsidiary
Guangzhou Yuexiu Financial Leasing Co., Ltd ("GYFL")	A fellow subsidiary
Guangzhou City Construction & Development Holdings Co.,Ltd. ("GCCD")	A fellow subsidiary
廣州越展資產經營管理有限公司 ("越展")	A fellow subsidiary
廣州造紙集團有限公司 ("廣州造紙")	A fellow subsidiary
廣州智聯汽車小鎮投資發展有限公司 ("智聯汽車小鎮")	A joint venture
廣州廣宏房地產開發有限公司 ("廣宏")	A joint venture
濟南鵬遠置業有限公司 ("濟南鵬遠")	A joint venture
深圳安創投資管理有限公司 ("深圳安創")	NCI with significant influence over the subsidiaries
桐鄉市安豪投資管理有限公司 ("桐鄉安豪")	NCI with significant influence over the subsidiaries
廣州聯衡置業有限公司 ("聯衡")	NCI with significant influence over the subsidiaries
深圳聯新投資管理有限公司 ("深圳聯新")	NCI with significant influence over the subsidiaries
廣州宏耀房地產開發有限公司 ("宏耀")	Note
廣州萬宏房地產開發有限公司 ("萬宏")	Note

Note: 宏耀 and 萬宏 were associated entities and have become subsidiaries of the Company since 2019.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

26 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)**(B) TRANSACTIONS WITH RELATED PARTIES**

Save as disclosed elsewhere in this condensed consolidated interim financial information, the Group had the following significant transactions with related parties during the period:

Six months ended 30 June		
	2020	2019
	RMB'000	RMB'000
(I) Transactions with YXE		
Interest expense (note 10)	(32,174)	(41,166)
Gain on foreign currency forward	60,163	—
Addition of right-of-use assets	—	7,631
Interest expense on lease liabilities	(141)	(164)
Repayment of lease liabilities	(1,810)	(1,135)
(II) Transactions with Yuexiu REIT		
Tenancy service fees income	19,867	10,511
Interest expense (note 10)	(9,355)	(9,943)
Expense related to short-term leases	(39,384)	—
Support expenses on support arrangement	(13,161)	(14,630)
Addition of right-of-use assets	—	85,890
Interest expense on lease liabilities	(2,484)	(4,355)
Repayment of lease liabilities	(36,224)	(33,596)
(III) Transaction with CHB		
Deposit interest income	9,101	11,270
Rental income	6,050	6,050
Interest expense (note 10)	(546)	(2,765)
Exchange gain on bank deposits	10,363	9,406
Proceeds from management service	947	—
Gain on foreign currency forward	46,713	9,978
(IV) Transaction with GYFL		
Rental income	4,888	5,073
(V) Transaction with 智聯汽車小鎮		
Interest income (note 9)	107,713	—
(VI) Transaction with 綠嶸		
Interest income (note 9)	70,287	—

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

26 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)**(B) TRANSACTIONS WITH RELATED PARTIES** (Continued)

		Six months ended 30 June	
		2020 RMB'000	2019 RMB'000
(VII)	Transaction with 杭州星日 Interest income (note 9)	15,885	—
(VIII)	Transaction with 廣宏 Interest income (note 9)	11,746	—
(IX)	Transaction with 濟南鵬遠 Interest income (note 9)	344	1,015
(X)	Transaction with 萬宏 Interest income (note 9)	—	34,227
(XI)	Transaction with 宏耀 Interest income (note 9)	—	131,625
(XII)	Transaction with Guangzhou Metro Interest expense (note 10)	(232,180)	(24,383)
	Management service income	5,272	3,698
(XIII)	Transaction with 桐鄉安豪 Interest expense (note 10)	(4,770)	(4,240)
(XIV)	Transaction with 深圳安創 Interest expense (note 10)	—	(57,413)
(XV)	Transaction with 聯衡 Interest expense (note 10)	—	(44,747)
(XVI)	Transaction with 深圳聯新 Interest expense (note 10)	—	(38,688)
(XVII)	Transaction with 越展 Interest expense on lease liabilities	(2,777)	—
	Repayment of lease liabilities	(6,010)	—
(XVIII)	Transaction with 廣州造紙 Interest expense on lease liabilities	(1,254)	—
	Repayment of lease liabilities	(2,457)	—

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

26 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

(C) BALANCES WITH RELATED PARTIES

		As at	
	Note	30 June 2020 RMB'000	31 December 2019 RMB'000
Amount due to ultimate holding company	(i), (ii)	(19,156)	(182,512)
Amount due to intermediate holding company	(i), (ii)	(2,386,216)	(1,900,304)
Amounts due from associated entities	(i), (iii)	4,304,372	2,914,497
Amounts due to associated entities	(ii), (vi)	(9,454,424)	(9,594,294)
Amounts due from joint ventures	(iv), (v), (vii)	3,771,135	4,563,486
Amounts due to joint ventures	(i), (ii)	(3,162,896)	(2,969,800)
Amounts due from related companies	(i), (ii)	38,285	47,241
Amounts due to related companies	(i), (ii)	(42,336)	(34,503)
Amounts due to fellow subsidiaries	(i), (ii)	(254,669)	(250,562)
Amounts due to a shareholder	(viii)	(7,658,766)	(7,538,621)
Amounts due from NCI with significant influence over the subsidiaries	(i), (ii)	1,593,002	1,593,002
Amounts due to NCI with significant influence over the subsidiaries	(ii), (ix)	(209,324)	(204,554)
Deposits in a fellow subsidiary	(x)	1,480,624	2,160,191
Bank borrowing from a fellow subsidiary	(xi)	—	(40,000)
Lease liabilities to intermediate holding company	(xii)	(4,785)	(7,374)
Lease liabilities to associated entities	(xii)	(97,653)	(132,823)
Lease liabilities to fellow subsidiaries	(xii)	(163,373)	(172,224)
Accrual for construction cost payable to a shareholder	(xiii)	(1,543,853)	(1,542,716)

Except for the amounts due from associated entities of nil (31 December 2019: RMB54,610,000), amounts due from joint ventures of approximately RMB106,724,000 (31 December 2019: RMB106,298,000), amount due to an associated entity of approximately RMB172,426,000 (31 December 2019: RMB179,622,000), amount due to a joint venture of approximately RMB57,837,000 (31 December 2019: RMB56,735,000), lease liabilities to intermediate holding company of approximately RMB4,785,000 (31 December 2019: RMB7,374,000), amount due to intermediate holding company of approximately RMB32,000 (31 December 2019: RMB303,000), and bank deposit in a fellow subsidiary of approximately RMB12,753,000 (31 December 2019: RMB10,286,000) which are denominated in HKD, bank deposit in a fellow subsidiary of approximately RMB3,638,000 (31 December 2019: RMB1,836,000) and amount due from an associated entity of approximately RMB617,688,000 (31 December 2019: RMB627,858,000) which are denominated in USD, other related party balances are denominated in RMB.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

26 SIGNIFICANT RELATED PARTY TRANSACTIONS *(Continued)***(C) BALANCES WITH RELATED PARTIES** *(Continued)*

Notes:

- (i) These balances are unsecured, interest free and repayable or receivable on demand.
- (ii) These balances are included in other receivables, prepayments and deposits or other payables and accrued charges, as appropriate.
- (iii) The balance is included in interests in associated entities except for an amount of approximately RMB2,908,791,000 (31 December 2019: RMB793,274,000) which is included in other receivables, prepayments and deposits.
- (iv) The balance is included in interests in joint ventures except for an amount of RMB3,475,000 (31 December 2019: RMB103,186,000) which is included in other receivables, prepayments and deposits.
- (v) These balances are not in default or impaired, except for a provision for impairment losses of approximately RMB999,000 (31 December 2019: RMB999,000) which is made for an amount due from a joint venture.
- (vi) Except for an amount of approximately RMB218,603,000 (31 December 2019: RMB223,617,000) which is unsecured and interest bearing at 9% per annum (2019: 9% per annum), and an amount of approximately RMB480,626,000 (31 December 2019: RMB480,626,000) which is unsecured and interest bearing at 4.31% per annum (2019: 4.31% per annum), the remaining balances are unsecured, interest free and repayable on demand.
- (vii) Except for an amount of approximately RMB1,076,873,000 (31 December 2019: RMB28,013,000) which is unsecured and interest bearing at 4.75% per annum (2019: 4.75% per annum) and except for an amount of nil (31 December 2019: RMB73,312,000) which is unsecured and interest bearing at 8.50% per annum (2019: 8.50% per annum), the remaining balances are unsecured, interest free and receivable on demand.
- (viii) The balance of loan from a shareholder, Guangzhou Metro was approximately RMB7,048,856,000 as at 30 June 2020 (31 December 2019: RMB7,076,856,000), with an interest rate of 6.50% per annum (2019: 6.5% per annum). The balance is included in other payables and accrued charges. An amount of approximately RMB786,946,000 is repayable in 2023. The remaining balance is repayable on demand.
- (ix) Except for an amount of approximately RMB163,311,000 (31 December 2019: RMB163,311,000), which is unsecured and interest bearing at 5.70% per annum (2019: 5.70% per annum), the remaining balances are unsecured, interest free and receivable on demand.
- (x) These balances are deposits maintained with a fellow subsidiary on normal commercial terms.
- (xi) As at 31 December 2019, these balances were unsecured and interest bearing at 5.23% per annum. They were repaid in 2020.
- (xii) The Group leases office premises from an intermediate holding company and associated entities, and premises for elder-care and medical services use from fellow subsidiaries. The monthly rents payable by the Group during the leasing terms are determined with reference to the prevailing market prices.
- (xiii) The balance is payable to Guangzhou Metro for the project construction on normal commercial terms.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

26 SIGNIFICANT RELATED PARTY TRANSACTIONS *(Continued)***(D) KEY MANAGEMENT COMPENSATION**

Key management compensation was amounted to RMB3,907,000 for the six months ended 30 June 2020 (for the six months ended 30 June 2019: RMB3,525,000).

(E) GUARANTEE RECEIVED

- (i) Guangzhou Yue Xiu provides guarantee for the corporate bonds of Guangzhou City Construction & Development Co. Ltd, a subsidiary of the Group, amounted to approximately RMB15,467 million as at 30 June 2020 (31 December 2019: RMB13,966 million).
- (ii) Guangzhou Yue Xiu provides guarantee for bank loan of Wuhan Kangjing Industrial Investment Co., Ltd, a subsidiary of the Group, amounted to RMB1,500 million as at 30 June 2020 (31 December 2019: RMB2,000 million).
- (iii) Guangzhou Yue Xiu provided guarantee for bank loan of Suzhou Shenyi Property Development Co., Ltd, a subsidiary of the Group, amounted to RMB200 million as at 31 December 2019. The bank loan was repaid in 2020.
- (iv) GCCD provides guarantee for bank loan of Guangzhou City Construction & Development Group Nansha Co. Ltd, a subsidiary of the Group, amounted to RMB90 million as at 30 June 2020 (31 December 2019: RMB90 million).
- (v) GCCD provides corporate guarantee for other loan of Wuhan Kangjing Industrial Investment Co.,Ltd., a subsidiary of the Group, amounted to RMB16 million as at 30 June 2020 (31 December 2019: RMB16 million).

(F) PROVISION OF GUARANTEE

The Group provides guarantee for the borrowing of associated entities and joint ventures, see note 23.

INDEPENDENT AUDITOR'S REPORT



羅兵咸永道

To the Members of Yuexiu Property Company Limited
(incorporated in Hong Kong with limited liability)

OPINION

What we have audited

The consolidated financial statements of Yuexiu Property Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 90 to 197, which comprise:

- the consolidated balance sheet as at 31 December 2019;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

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INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Valuation of investment properties held by the Group and its associated entity
- Net realisable value of properties under development and properties held for sale held by the Group

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>Valuation of investment properties held by the Group and its associated entity</p> <p>Refer to notes 3.3(b), 4(a), 18 and 22 to the consolidated financial statements</p> <p>Management has estimated the fair value of the Group's investment properties to be RMB9,438 million at 31 December 2019, with a revaluation loss for the year ended 31 December 2019 recorded in the consolidated statement of profit or loss of RMB23 million. The fair value of investment properties held by Yuexiu Real Estate Investment Trust, an associated entity, amounted to RMB29,982 million (attributable to the Group amounted to RMB11,423 million) at 31 December 2019, with a revaluation gain for the year ended 31 December 2019 recorded in the consolidated statement of profit or loss of RMB753 million (attributable to the Group amounted to RMB287 million).</p> <p>Management has engaged independent external valuers to perform valuation of all the investment properties in order to support management's estimates. The valuations of completed investment properties are dependent on certain key assumptions that require significant management judgement, including market rents and capitalisation rate.</p> <p>Due to the significant judgement and estimates involved, specific audit focus was placed on this area.</p>	<p>Our procedures in relation to management's valuation of investment properties included:</p> <ul style="list-style-type: none"> • Evaluating the independent external valuers' qualifications, expertise, competence, capabilities and objectivity; • Obtaining the valuation reports for all properties and assessing that the valuation approach adopted was suitable for use in determining the fair value for the purpose of the financial statements; • Assessing the methodologies used and the appropriateness of the key assumptions based on our knowledge of the property industry and using our in-house valuation experts; and • Checking, on a sample basis, the input data used by the independent external valuers for the accuracy and relevance of the published external market data. <p>We found that the assumptions and estimates made by the management in relation to the valuation were supported by the available audit evidence.</p>

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>Net realisable value of properties under development and properties held for sale held by the Group</p> <p>Refer to notes 4(b), 24 and 25 to the consolidated financial statements</p> <p>The Group had properties under development and properties held for sale of RMB136,940 million and RMB13,447 million, respectively, as at 31 December 2019. Management assessed the carrying amounts according to the recoverable amount of these properties, taking into account the estimated costs to completion and estimated net sales value at prevailing market conditions. Write down to net realisation value is made when events or changes in circumstances indicate that the carrying amounts may not be realisable. The assessment requires management judgement and estimates.</p>	<p>Our procedures in relation to management's assessment on net realisable value of properties under development and properties held for sale included:</p> <ul style="list-style-type: none"> • Evaluating management's assessment by comparing, on a sample basis, the estimated selling price less variable selling expenses and the estimated costs to completion used in the assessment with the price and cost data from recent transactions or available market information; • Obtaining understanding from management and performing assessment on the latest status and development plans of the underlying property projects, such as expected completion dates of the projects; and • Checking management's adjustments to recoverable amounts of the underlying property projects if their carrying amounts are below net realisable value. <p>We found the net realisable value of properties under development and properties held for sale were supported by the available evidence.</p>

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 405 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

INDEPENDENT AUDITOR'S REPORT

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Ho Kwok Fai, Timothy.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 10 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 RMB'000	2018 RMB'000
Revenue	5	38,339,112	26,433,444
Cost of sales	6	(25,221,725)	(18,040,522)
Gross profit		13,117,387	8,392,922
Sales of investment properties		137,487	96,428
Direct costs of investment properties sold		(103,511)	(93,753)
Gain on sales of investment properties	20	33,976	2,675
Fair value (losses)/gains on revaluation of investment properties, net	18	(23,434)	370,875
Other gains, net	7	799,285	1,039,814
Selling and marketing costs	6	(999,568)	(650,513)
Administrative expenses	6	(1,234,510)	(1,045,130)
Operating profit		11,693,136	8,110,643
Finance income	8	382,497	169,665
Finance costs	9	(1,160,942)	(2,002,121)
Share of profit of			
– joint ventures	21	12,037	58,466
– associated entities	22	486,318	446,749
Profit before taxation		11,413,046	6,783,402
Taxation	10	(6,682,538)	(3,743,909)
Profit for the year		4,730,508	3,039,493
Attributable to:			
– Equity holders of the Company		3,483,351	2,727,885
– Non-controlling interests		1,247,157	311,608
		4,730,508	3,039,493
Earnings per share for profit attributable to equity holders of the Company (expressed in RMB per share)			
– Basic and diluted	11	0.2410	0.2200

The notes on pages 99 to 197 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	2019 RMB'000	2018 RMB'000
Profit for the year	4,730,508	3,039,493
Other comprehensive income:		
<u>Items that may be reclassified to profit or loss</u>		
Exchange differences on translation of foreign operations	(205,091)	(415,210)
Gains/(losses) on cash flow hedges	31,374	(834)
Costs of hedging	7,597	–
Hedging losses reclassified to profit or loss	12,664	–
<u>Items that will not be reclassified to profit or loss</u>		
Changes in the fair value of equity investments at fair value through other comprehensive income, net of tax	44,558	15,161
Other comprehensive loss for the year, net of tax	(108,898)	(400,883)
Total comprehensive income for the year	4,621,610	2,638,610
Attributable to:		
– Equity holders of the Company	3,372,030	2,326,177
– Non-controlling interests	1,249,580	312,433
	4,621,610	2,638,610

The notes on pages 99 to 197 form an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2019

	Note	2019 RMB'000	2018 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	16	2,505,924	1,994,812
Right-of-use assets	17	4,065,788	–
Investment properties	18	9,438,108	10,865,470
Intangible assets		85,995	–
Land use rights	17	–	207,569
Properties under development	24	11,532,544	–
Interests in joint ventures	21	7,162,021	6,473,872
Interests in associated entities	22	12,830,629	13,912,313
Financial assets at fair value through other comprehensive income	23	1,293,264	1,228,635
Derivative financial instruments		65,179	9,069
Deferred tax assets	38	665,128	492,137
		49,644,580	35,183,877
Current assets			
Properties under development	24	125,407,543	73,069,099
Properties held for sale	25	13,446,673	10,164,536
Contract costs	26	481,320	334,697
Prepayments for land use rights		3,086,312	4,862,699
Trade receivables	27	68,309	50,916
Other receivables, prepayments and deposits	28	9,956,283	16,223,088
Prepaid taxation		2,416,865	1,772,324
Charged bank deposits	29	6,083,829	5,168,750
Cash and cash equivalents	30	24,105,541	21,990,512
		185,052,675	133,636,621
LIABILITIES			
Current liabilities			
Trade and note payables	31	2,432,898	1,407,577
Contract liabilities	32	41,942,500	31,637,956
Other payables and accrued charges	33	47,665,154	29,371,429
Borrowings	34	7,138,023	5,786,145
Lease liabilities	17	114,542	–
Derivative financial instruments		1,347	–
Taxation payable		7,623,170	4,425,962
		106,917,634	72,629,069
Net current assets		78,135,041	61,007,552
Total assets less current liabilities		127,779,621	96,191,429

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2019

	Note	2019 RMB'000	2018 RMB'000
Non-current liabilities			
Borrowings	34	63,883,633	47,619,960
Lease liabilities	17	563,665	–
Deferred tax liabilities	38	6,911,015	5,604,127
Deferred revenue		53,829	55,624
Other payables and accrued charges	33	1,175,663	–
		<u>72,587,805</u>	<u>53,279,711</u>
Net assets		<u>55,191,816</u>	<u>42,911,718</u>
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	35	18,035,015	12,759,402
Shares held under share award scheme	36	(81,577)	(55,220)
Other reserves	37	567,349	455,671
Retained earnings	37	22,202,721	20,666,714
		<u>40,723,508</u>	<u>33,826,567</u>
Non-controlling interests		14,468,308	9,085,151
Total equity		<u>55,191,816</u>	<u>42,911,718</u>

On behalf of the Board

Lin Zhaoyuan
Director

Lin Feng
Director

The notes on pages 99 to 197 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

	2019 RMB'000	2018 RMB'000
Operating profit	11,693,136	8,110,643
Adjustments for:		
Depreciation and amortisation (note 6)	210,027	64,972
(Gain)/loss on disposal of property, plant and equipment	(786)	82
Gain on sales of investment properties (note 20)	(33,976)	(2,675)
Fair value losses/(gains) on revaluation of investment properties, net (note 18)	23,434	(370,875)
Fair value loss on derivative financial instrument	1,347	–
Fair value loss on supporting arrangement liabilities (note 7)	32,318	22,736
Amortisation of deferred revenue	(1,795)	(1,794)
Provision for impairment of properties held for sale (note 6)	179,796	85,591
Gain on disposal of subsidiaries (note 7)	(22,192)	(463,494)
Loss on disposal of non-current assets held-for-sale	–	5,550
Remeasurement gains on interests in a joint venture/associated entities (note 7)	(765,623)	(553,636)
Gain on bargain purchase on acquisition (note 7)	(10,561)	(40,111)
Operating cash flows before movements in working capital	11,305,125	6,856,989
Increase in properties under development, properties held for sale and prepayments for land use rights	(2,785,525)	(1,748,450)
Increase in contract costs	(70,872)	(75,167)
Decrease in inventories	–	3,698
Decrease in trade receivables, other receivables, prepayments and deposits	56,499	843,474
Increase in trade and note payables, contract liabilities, other payables and accrued charges	5,141,873	10,030,631
Net exchange difference for working capital	3,033	(29,472)
Net cash generated from operations	13,650,133	15,881,703
Interest received	158,139	161,227
Interest paid	(3,737,996)	(2,928,613)
Hong Kong profits tax paid	(1,296)	(2,614)
China taxation paid	(3,699,207)	(2,881,628)
Net cash generated from operating activities	6,369,773	10,230,075

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

	2019 RMB'000	2018 RMB'000
Investing activities		
Purchases of property, plant and equipment and intangible assets	(291,216)	(237,437)
Proceeds from sales of property, plant and equipment	2,084	47,807
Purchases of investment properties (note 18)	–	(5,266)
Proceeds from sale of investment properties	136,614	95,516
Increase in charged bank deposits	(915,079)	(1,029,638)
Payment for acquisition of subsidiaries, net of cash acquired	(12,303,753)	(1,934,348)
Proceeds from disposal of subsidiaries, net of cash disposed	2,301,715	502,204
Capital injection in a joint venture	(77,436)	(810,900)
Acquisition of joint ventures	(398,590)	(243,013)
Capital injection in associated entities	(244,750)	–
Acquisition of associated entities	(4,900)	(564,872)
Dividends received from associated entities	380,771	278,860
Received from/(payment to) joint ventures and associated entities	580,163	(260,924)
Proceeds from sale of non-current asset held-for-sale	–	306,481
(Increase)/decrease in amounts due from associated entities and joint ventures	(10,606,465)	19,277
Decrease in amounts due from related parties of non-controlling interests and non-controlling interests	1,271,380	298,296
Net cash used in investing activities	(20,169,462)	(3,537,957)

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

	2019 RMB'000	2018 RMB'000
Financing activities		
Capital contribution from non-controlling interests	534,440	1,287,517
Dividends paid to equity holders of the Company	(1,432,672)	(1,006,056)
Dividends paid to non-controlling interests	(51,356)	–
Increase in amounts due to an intermediate holding company	400,299	1,499,992
Increase in amounts due to joint ventures and associated entities	9,292,462	2,345,022
Increase/(decrease) in amounts due to related companies	81	(6,146)
Decrease in amounts due to fellow subsidiaries	(35,974)	(108,239)
Decrease in amounts due to ultimate holding company	(3,068,068)	–
(Decrease)/Increase in amounts due to related parties of non-controlling interests and non-controlling interests	(2,562,027)	768,573
Proceeds from bank borrowings	18,387,375	12,562,603
Repayment of bank borrowings	(14,229,245)	(21,994,369)
Proceeds from other borrowings	12,753,828	23,996,979
Repayment of other borrowings	(4,001,000)	(20,743,754)
Repayment for lease liabilities	(91,956)	–
Decrease in bank overdraft	(16)	–
Net cash generated from/(used in) financing activities	15,896,171	(1,397,878)
Increase in cash and cash equivalents	2,096,482	5,294,240
Cash and cash equivalents at the beginning of year	21,990,455	16,655,248
Exchange gain on cash and cash equivalents	18,563	40,967
Cash and cash equivalents at the end of year	24,105,500	21,990,455
Analysis of balances of cash and cash equivalents		
Bank balances and cash (note 30)	24,105,541	21,990,512
Bank overdrafts (note 34)	(41)	(57)
	24,105,500	21,990,455

The notes on pages 99 to 197 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

	Attributable to equity holders of the Company				
	Share capital RMB'000	Shares held under share award scheme RMB'000	Reserves RMB'000	Non- controlling interests RMB'000	Total RMB'000
Balance at 1 January 2019	12,759,402	(55,220)	21,122,385	9,085,151	42,911,718
Comprehensive income					
Profit for the year	—	—	3,483,351	1,247,157	4,730,508
Other comprehensive income					
Currency translation differences	—	—	(205,091)	—	(205,091)
Change in the fair value of equity investments at fair value through other comprehensive income, net of tax	—	—	42,135	2,423	44,558
Gains on cash flow hedges	—	—	31,374	—	31,374
Costs of hedging	—	—	7,597	—	7,597
Hedging losses reclassified to profit or loss	—	—	12,664	—	12,664
Total other comprehensive income	—	—	(111,321)	2,423	(108,898)
Total comprehensive income	—	—	3,372,030	1,249,580	4,621,610
Transactions with owners					
Issuance of shares (note 19(a))	5,275,613	—	(291,673)	—	4,983,940
Dividends	—	—	(1,432,672)	(187,368)	(1,620,040)
Capital injection to subsidiaries	—	—	—	1,421,539	1,421,539
Non-controlling interests arising on business combination (note 19)	—	—	—	2,899,406	2,899,406
Acquisition of shares under share award scheme (note 36)	—	(51,183)	—	—	(51,183)
Shares granted to employees	—	24,826	—	—	24,826
Total transactions with owners	5,275,613	(26,357)	(1,724,345)	4,133,577	7,658,488
At 31 December 2019	18,035,015	(81,577)	22,770,070	14,468,308	55,191,816

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

	Attributable to equity holders of the Company				
	Share capital RMB'000	Shares held under share award scheme RMB'000	Reserves RMB'000	Non-controlling interests RMB'000	Total RMB'000
Balance at 1 January 2018	12,759,402	(21,301)	19,802,264	4,643,201	37,183,566
Comprehensive income					
Profit for the year	—	—	2,727,885	311,608	3,039,493
Other comprehensive income					
Currency translation differences	—	—	(415,210)	—	(415,210)
Change in the fair value of equity investments at fair value through other comprehensive income, net of tax	—	—	14,336	825	15,161
Losses on cash flow hedges	—	—	(834)	—	(834)
Total other comprehensive income	—	—	(401,708)	825	(400,883)
Total comprehensive income	—	—	2,326,177	312,433	2,638,610
Transactions with owners					
Dividends paid	—	—	(1,006,056)	—	(1,006,056)
Capital injection to subsidiaries	—	—	—	1,287,517	1,287,517
Non-controlling interests arising on business combination	—	—	—	2,842,000	2,842,000
Acquisition of shares under share award scheme (note 36)	—	(33,919)	—	—	(33,919)
Total transactions with owners	—	(33,919)	(1,006,056)	4,129,517	3,089,542
At 31 December 2018	12,759,402	(55,220)	21,122,385	9,085,151	42,911,718

The notes on pages 99 to 197 form an integral part of these consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 GENERAL INFORMATION

Yuexiu Property Company Limited (the "Company") and its subsidiaries (together, the "Group") is principally engaged in development, selling and management of properties and holding of investment properties. The Group's operations are primarily conducted in Mainland China ("China") and Hong Kong.

The Company is a limited liability company incorporated in Hong Kong. The address of its registered office is 26th Floor, Yue Xiu Building, 160 Lockhart Road, Wanchai, Hong Kong.

The Company's shares are listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange").

These financial statements are presented in Renminbi ("RMB"), unless otherwise stated. These financial statements have been approved for issue by the Board of Directors on 10 March 2020.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The consolidated financial statements are for the Company and its subsidiaries.

2.1 Basis of preparation

(i) Compliance with HKFRS and HKCO

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs) and requirements of the Hong Kong Companies Ordinance Cap. 622.

(ii) Historical cost convention

The consolidated financial statements have been prepared on a historical cost basis, except for certain financial assets and liabilities (including derivative instruments) and investment properties which are measured at fair value.

(iii) The Group has applied the following new standards, amendments to existing standards and interpretation for the first time for their annual reporting period commencing 1 January 2019:

HKAS 19 (Amendments)	Plan Amendment, Curtailment or Settlement
HKAS 28 (Amendments)	Long-term Interests in an Associate and Joint Ventures
HKFRS 9 (Amendments)	Prepayment Features with Negative Compensation
HKFRS 16	Leases
Annual Improvements to 2015-2017 Cycle	Improvements to HKFRSs
HK (IFRIC) 23	Uncertainty over Income Tax Treatments

The Group had to change its accounting policies and make retrospective adjustments as a result of adopting HKFRS 16. The impact of the adoption of the leasing standard is disclosed in note 2.2. Most of the other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**2.1 Basis of preparation (Continued)**

(iv) *New standards and amendments to existing standards have been issued but are not effective and have not been early adopted by the Group:*

		Effective for accounting periods beginning on or after
HKAS 1 and HKAS 8 (Amendments)	Definition of Material	1 January 2020
HKAS 1 (Amendment)	Classification of Liabilities as Current or Non-current	1 January 2022
HKFRS 3 (Amendments)	Definition of a Business	1 January 2020
HKFRS 9 and HKFRS 7 (Amendment)	Benchmark Interest Rate Reform	1 January 2020
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting	1 January 2020
HKFRS 17	Insurance Contracts	1 January 2021

The above new standards and amendments to existing standards are effective for annual periods beginning on or after 1 January 2020 and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group.

2.2 Changes in accounting policies

This note explains the impact of the adoption of HKFRS 16 "Leases" on the Group's financial statements.

As indicated in note 2.1 above, the Group has adopted HKFRS 16 "Leases" retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. All right-of-use assets will be measured at the amount of lease liabilities on adoption (adjusted for any prepaid or accrued expenses). The new accounting policies are disclosed in note 2.27.

(i) Practical expedients applied

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics,
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019,
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases, and
- excluding initial direct costs for the measurement of the right-of-use assets at the date of initial application.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Group relied on its assessment made applying HKAS 17 and HK(IFRIC) 4 "Determining whether an Arrangement contains a Lease".

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)
2.2 Changes in accounting policies (Continued)
(ii) Adjustments recognised on adoption of HKFRS 16

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 "Leases". These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as at 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4.82%.

	RMB'000
Operating lease commitments disclosed as at 31 December 2018	72,516
Discounted using the lessee's incremental borrowing rate at the date of initial application	60,684
Less: short-term leases recognised on a straight-line basis as expenses	(12,973)
Lease liability recognised as at 1 January 2019	47,711
Of which are:	
Current lease liabilities	12,330
Non-current lease liabilities	35,381
	47,711

The associated right-of-use assets for property leases were measured at the amount of lease liability on adoption (adjusted for any prepaid or accrued expenses). There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use assets relate to the following types of assets:

	31 December 2019 RMB'000	1 January 2019 RMB'000
Properties	653,078	47,711
Land use rights	3,412,710	207,569
	4,065,788	255,280

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**2.2 Changes in accounting policies (Continued)***(ii) Adjustments recognised on adoption of HKFRS 16 (Continued)*

Segment assets and additions to non-current assets for 2019 increased as a result of the change in accounting policy. The following segments of 2019 were affected by the change in policy:

	Segment assets RMB'000	Additions to non-current assets RMB'000
Property development	87,171	131,639
Property management	51,584	47,189
Others	514,323	523,660
	<u>653,078</u>	<u>702,488</u>

(iii) Lessor accounting

The Group did not need to make any adjustments to the accounting for assets held as lessor under operating leases as a result of the adoption of HKFRS 16.

2.3 Principles of consolidation and equity accounting*(i) Subsidiaries*

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity where the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (refer to note 2.4).

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Principles of consolidation and equity accounting (Continued)

(ii) *Associated entities*

Associated entities are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associated entities are accounted for using the equity method of accounting (see (iv) below), after initially being recognised at cost.

(iii) *Joint arrangements*

Under HKFRS 11 "Joint Arrangements" investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Interests in joint ventures are accounted for using the equity method (see (iv) below), after initially being recognised at cost in the consolidated balance sheet.

(iv) *Equity method*

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associated entities and joint ventures are recognised as a reduction in the carrying amount of the investment.

Where the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity-accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in note 2.11.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Principles of consolidation and equity accounting (Continued)

(v) Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of the Group.

When the Group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associated entity, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs.

If the ownership interest in a joint venture or an associated entity is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

2.4 Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred,
- liabilities incurred to the former owners of the acquired business,
- equity interests issued by the Group,
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Business combinations (Continued)

Acquisition-related costs are expensed as incurred.

The excess of the

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

2.5 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.6 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker.

The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors that makes strategic decisions.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in RMB, which is the Company's functional and the Group's presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss. Foreign exchange gains and losses are presented in the statement of profit or loss within financial income or finance costs.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss ("FVPL") are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as fair value through other comprehensive income ("FVOCI") are recognised in other comprehensive income.

(iii) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each statement of profit or loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting currency translation differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign entity and translated at the closing rate.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Foreign currency translation (Continued)

(iv) Disposal of foreign operation and partial disposal

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint ventures that includes a foreign operation, or a disposal involving loss of significant influence over an associated entity that includes a foreign operation), all of the currency translation differences accumulated in equity in respect of that operation attributable to the equity holders of the Company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated currency translation differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associated entities or joint ventures that do not result in the Group losing significant influence or joint control) the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

2.8 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

Land	50 years
Buildings	25-40 years
Leasehold improvements, furniture, fixtures and office equipment	3-5 years
Motor vehicles	5 years

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Property, plant and equipment (Continued)

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2.11).

Gains and losses on disposals are determined by comparing the proceeds with carrying amount. These are included in profit or loss.

Construction in progress is stated at cost less accumulated impairment losses. Cost includes all attributable costs of bringing the asset to working condition for its intended use. This includes direct costs of construction as well as interest expense capitalised during the period of construction and installation. Capitalisation of these costs will cease and the construction in progress is transferred to appropriate categories within property, plant and equipment when the construction activities necessary to prepare the assets for their intended use are completed. No depreciation is provided in respect of construction in progress.

2.9 Investment properties

Investment properties, principally comprising leasehold land and buildings, are held for long-term rental yields, and are not occupied by the Group. Investment property is initially measured at cost, including related transaction costs and where applicable borrowing costs.

After initial recognition, investment properties are carried at fair value, representing open market value determined at each reporting date by external valuers. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections.

Changes in fair values are recognised in the consolidated statement of profit or loss. Investment properties are derecognised either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes.

If an item of owner-occupied property becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is treated in the same way as a revaluation under HKAS 16. Any resulting increase in the carrying amount of the property is recognised in the consolidated statement of profit or loss to the extent that it reverses a previous impairment loss, with any remaining increase recognised in other comprehensive income and increases directly to revaluation surplus within equity. Any resulting decrease in the carrying amount of the property is initially charged in other comprehensive income against any previously recognised revaluation surplus, with any remaining decrease charged to profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Investment properties (Continued)

Where an investment property undergoes a change in use, evidenced by commencement of development with a view to sale, the property is transferred to inventories. A property's deemed cost for subsequent accounting as inventories is its fair value at the date of change in use.

For a transfer from properties under development or property held for sale to investment properties that will be carried at fair value, any difference between the fair value of the property at that date and its previous carrying amount shall be recognised in profit or loss. Transfers to investment property shall be made when, and only when, there is a change in use, evidenced by commencement of an operating lease to another party. The inception of an operating lease is generally an evidence of a change in use. A change in use has occurred is based on an assessment of all relevant facts and circumstances. The relevant facts include but not limited to the Group's business plan, financial resources and legal requirements.

2.10 Intangible assets

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of three years.

2.11 Impairment of non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets that are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows which are largely independent of the cash flows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.12 Investments and other financial assets

(i) Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either FVOCI or FVPL), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at FVOCI.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12 Investments and other financial assets (Continued)

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on the trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(iii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the consolidated statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

(iv) Impairment

The Group assesses on a forward looking basis the expected credit losses associated with its other receivables and deposits carried at amortised cost and adopt three-stages approach to assess the impairment. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

2.13 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet where the Group has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.14 Financial guarantees contracts

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of

- the amount determined in accordance with the expected credit loss model under HKFRS 9 Financial Instruments; and
- the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the principles of HKFRS 15 "Revenue from Contracts with Customers".

The fair value of financial guarantees is determined based on the present value of the difference in cash flows between the contractual payments required under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Where guarantees in relation to loans or other payables of associates are provided for at no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment.

2.15 Derivatives and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as cash flow hedges, which are hedges of the cash flows of recognised financial assets or financial liabilities.

At the inception of the hedging, the Group documents the economic relationship between hedging instruments and hedged items, including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedged items. The Group documents its risk management objective and strategy for undertaking its hedge transactions.

The fair values of derivative financial instruments designated in hedge relationships are disclosed in note 3.3(a). Movements in the hedging reserve in shareholders' equity are shown in note 37. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.15 Derivatives and hedging activities (Continued)

(i) *Cash flow hedge that quantity for hedge accounting*

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in cash flow hedge reserve within equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss within other income or other gains/(losses).

When forward contracts are used to hedge forecast transactions, the Group generally designates only the change in fair value of the forward contract related to the spot component as the hedging instrument. Gains or losses relating to the effective portion of the change in the spot component of the forward contracts are recognised in the cash flow hedge reserve within equity. The change in the forward element of the contract that relates to the hedged item ('aligned forward element') is recognised within OCI in the costs of hedging reserve within equity. In some cases, the entity may designate the full change in fair value of the forward contract (including forward points) as the hedging instrument. In such cases, the gains or losses relating to the effective portion of the change in fair value of the entire forward contract are recognised in the cash flow hedge reserve within equity.

Amounts accumulated in equity are reclassified in the periods when the hedged item affects profit or loss.

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time remains in equity until the forecast transaction occurs. When the forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging that were reported in equity are immediately reclassified to profit or loss.

(ii) *Derivatives that do not qualify for hedge accounting*

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss.

2.16 Trade receivable

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See note 2.12 (iv) and 3.1(b) for a description of the Group's impairment policies.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.17 Properties under development and properties held for sale

Properties under development and held for sale are stated at the lower of cost and net realisable value. Development cost of properties comprises cost of land use rights, construction costs and borrowing costs incurred during the construction period. Upon completion, the properties are transferred to completed properties held for sale.

Net realisable value takes into account the price ultimately expected to be realised, less applicable variable selling expenses and the anticipated costs to completion.

Properties under development and held for sale are classified as current assets unless the construction period of the relevant property development projects is expected to complete beyond normal operating cycle.

2.18 Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

2.19 Trade and note payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.20 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the consolidated statement of profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21 Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

Other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.22 Share capital and shares held under share award scheme

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where the Company's shares are acquired from the market by the Group Employee Share Trust under the share award scheme, the total consideration of shares acquired from the market (including any directly attributable incremental costs) is presented as shares held under share award scheme and deducted from total equity.

Upon grant date, the total consideration related cost of the shares purchased from the market are credited to shares held under share award scheme.

2.23 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

(i) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company and its subsidiaries, associated entities and joint ventures operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.23 Current and deferred income tax (Continued)

(ii) *Deferred income tax*

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred tax liability is settled.

The deferred tax liability in relation to investment property that is measured at fair value is determined assuming the property will be recovered entirely through sale.

Deferred tax assets are recognised only if it is probable that future taxable profit will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to income taxes levied by the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(iii) *Investment allowances and similar tax incentives*

Companies within the Group may be entitled to claim special tax deductions for investments in qualifying assets or in relation to qualifying expenditure. The Group accounts for such allowances as tax credits, which means that the allowance reduces income tax payable and current tax expense. A deferred tax asset is recognised for unclaimed tax credits that are carried forward as deferred tax assets.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.24 Employee benefits

(i) *Short-term obligations*

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the balance sheet.

(ii) *Pension obligations*

The Group participates in various defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan.

The Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(iii) *Profit-sharing and bonus plans*

The Group recognises a liability and an expense for bonuses and profit-sharing based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(iv) *Share-based compensation*

Share-based compensation benefits are provided to employee via the share award scheme. Information relating to these schemes is set out in note 36.

(v) *Termination benefits*

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of HKAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.25 Provisions

Provisions for legal claims, service warranties and make good obligations are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to passage of time is recognised as interest expense.

2.26 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for the sales of properties in the PRC and provision of services in the ordinary course of the Group's activities. Revenue is shown, net of discounts and after eliminating sales with the Group companies.

(a) Sales of properties

Under HKFRS 15, revenue are recognised when or as the control of the asset is transferred to the customer. Depending on the terms of the contract and laws that apply to the contract, control of the asset may transfer over time or at a point in time. Control of the asset is transferred over time if the Group's performance:

- Provides all the benefits received and consumed simultaneously by the customer; or
- Creates and enhances an asset that the customer controls as the Group performs; or
- Do not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the asset transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the asset.

In determine the transaction price, the Group adjusts the promised amount of consideration for the effect of a financing component if it is significant.

The Group has assessed that there is no enforceable right to payment from the customers for performance completed to date. Revenue is recognised at a point in time when the purchaser obtains the physical possession or the legal title of the completed property and the Group has present right to payment and the collection of the consideration is probable.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.26 Revenue recognition (Continued)

(b) *Property lease income*

Operating lease rental income is recognised on a straight-line basis over the lease period.

(c) *Property management income*

Revenue from rendering of property management services are recognised in the accounting period in which the related services are rendered and there is rights to invoice.

(d) *Agency service revenue*

Agency fee revenue from property brokering is recognised when the relevant agreement becomes unconditional or irrevocable and no further performance obligations.

(e) *Decoration services*

The Group provide decoration services related to interior renovation to customers. The Group's performance creates or enhances an asset or work in progress that the customer controls as the asset is created or enhanced, thus the Group satisfies a performance obligation and recognises revenue over time, by reference to completion of the specific transaction assessed on the basis of the actual costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract.

2.27 Leases

- (i) As explained in note 2.2, the Group has changed its accounting policy for leases where the Group is the lessee. The new policy is described below and the impact of the change in note 2.2.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the Group under residual value guarantees
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.27 Leases (Continued)

(i) (Continued)

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received,
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third party financing, and
- makes adjustments specific to the lease, eg term, country, currency and security.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

(i) Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date less any lease incentives received,
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of equipment and properties and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term (note 18). Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

NOTES TO THE FINANCIAL STATEMENTS**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****2.27 Leases (Continued)**

- (ii) Accounting policies applied until 31 December 2018

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term. The respective leased assets are included in the balance sheet based on their nature.

2.28 Government grants

Grants from government are recognised at their fair value when there is reasonable assurance that the grant will be received and that the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

2.29 Dividend distribution

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

2.30 Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.31 Contract costs and contract liabilities

Contract costs arising from costs to obtain or fulfil a contract that are recognised in accordance with HKFRS 15. Contract costs of the Group are primarily sales commission for the property sales. The Group recognises above incremental costs of obtaining a contact with a customer within contract assets if the Group expects to recover these costs and amortises when the related revenue are recognised.

If a customer pays consideration before the Group transfers a good or service to the customer, the Group presents the contract as a contract liability when the payment is made. A contract liability is the Group's obligation to transfer goods or services to a customer for which the Group has received consideration from the customer.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk and price risk), credit risk, and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market risk

(i) Foreign exchange risk

A majority of the subsidiaries of the Group operate in China with most of their transactions denominated in RMB. The Group is exposed to foreign exchange risk arising from the exposure of RMB against Hong Kong dollars ("HKD") and United States dollars ("USD"); for certain cash and bank balances of approximately RMB588 million (2018: RMB570 million) and bank borrowings of approximately RMB9,584 million (2018: RMB7,145 million) which were denominated in HKD and cash and bank balances of approximately RMB367 million (2018: RMB343 million) and bank borrowings of approximately RMB11,816 million (2018: RMB11,604 million) which were dominated in USD as at 31 December 2019. The Group has entered into several forward exchange contracts to limit its exposure to foreign exchange risk during the year ended 31 December 2019.

At 31 December 2019, if RMB had strengthened/weakened by 5 percent against HKD and USD with all other variables held constant (assuming no capitalisation of exchange difference), post-tax profit for the year would have been approximately RMB854 million higher/lower (2018: post-tax profit RMB745 million higher/lower), mainly as a result of foreign exchange gains on translation of monetary assets and liabilities denominated in HKD and USD.

NOTES TO THE FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(ii) Cash flow and fair value interest rate risk

The Group's exposure to changes in interest rates is mainly attributable to its borrowings at fixed rate which expose the Group to fair value interest rate risk. Borrowings at variable rates expose the Group to cash flow interest rate risk. The Group closely monitors trend of interest rate and its impact on the Group's interest rate risk exposure. As at 31 December 2019, fixed interest rate borrowings accounted for approximately 58% (31 December 2018: 57%) of the total borrowings.

At 31 December 2019, if interest rates on borrowings had been 100 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been approximately RMB67 million lower/higher (2018: post-tax profit RMB78 million lower/higher) respectively, mainly as a result of higher/lower interest expense on floating rate borrowings.

(iii) Price risk

The Group is exposed to equity securities price risk in its financial assets at FVOCI. The Group is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group.

The financial assets at FVOCI are mainly unlisted equity instruments in China and if the fair value of these equity investments increased or decreased by 10 percent, the Group's equity would have been increased or decreased by approximately RMB84 million (2018: RMB79 million).

(b) Credit risk

The Group is exposed to credit risk in relation to its cash and cash equivalents, charged bank deposits and trade and other receivables, including amounts due from related parties.

The carrying amounts of trade and other receivables, cash and cash equivalents and charged bank deposits represent the Group's maximum exposure to credit risk in relation to financial assets.

To manage this risk, with respect to cash at banks and charged bank deposits are placed with highly reputable financial institutions. The Group has policies in place to ensure that sales are made to purchasers with an appropriate financial strength and appropriate percentage of down payments. The Group has arranged bank financing for certain purchasers of the Group's property units and provided guarantees to secure obligations of such purchasers for repayments. If a purchaser defaults on the payments of its mortgage loan during the guarantee period, the bank holding the guarantee may demand the Group to repay the outstanding principal of the loan and any interest to recover any amounts paid by the Group to the bank. Under such circumstances, the Group is able to forfeit the customer's deposit and resell the property to recover any amounts paid by the Group to the bank. In this regard, the directors consider that the Group's credit risk is significantly reduced. The Group also provides certain financial guarantee to associates and joint ventures. As the associates and joint ventures have strong capacity to meet their contractual cash flow obligations, the Group has assessed that the expected credit loss is immaterial. Detailed disclosure of these guarantees is made in note 41.

NOTES TO THE FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

The Group applies the HKFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. Future cash flows for each group of receivables are estimated on the basis of historical default rates, adjusted to reflect the effects of existing market conditions as well as forward looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

Trade receivables with known insolvencies are assessed individually for impairment allowances and are written off when there is no reasonable expectation of recovery. Indicators of insolvencies include, amongst others, the failure of a debtor engage in a repayment plan with the Group, and a failure to make contractual payments. As at 31 December 2019, certain customers who did not share the same credit risk characteristics as the rest of debtors were in delinquency of payments and their respective trade receivable balances amounting to approximately RMB9 million (2018: 9 million) were therefore fully impaired.

Trade receivables without known insolvencies are assessed on a collective basis based on shared credit risk characteristics. Based on the Group's assessment, expected credit loss rate of these trade receivables is close to zero. Therefore, the loss allowance provision for these trade receivable balances was not material and no provision was recognised.

For other receivables, including amounts due from related parties, management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement record, past experience and forward looking information. The directors believe that there is no material credit risk inherent in the Group's outstanding balance of other receivables.

NOTES TO THE FINANCIAL STATEMENTS**3 FINANCIAL RISK MANAGEMENT (Continued)****3.1 Financial risk factors (Continued)***(b) Credit risk (Continued)*

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on ongoing basis throughout the year. To assess whether there is a significant increase in credit risk the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- internal credit rating
- external credit rating
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations.
- actual or expected significant changes in the operating results of individual property owner or the borrower
- significant increases in credit risk on other financial instruments of the individual property owner or the same borrower
- significant changes in the expected performance and behavior of the borrower, including changes in the payment status of borrowers in the Group and changes in the operating results of the borrower

The Group uses four categories for those receivables which reflect their credit risk and how the loss provision is determined for each of those categories. These internal credit risk ratings are aligned to external credit ratings.

NOTES TO THE FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

A summary of the assumptions underpinning the Group's expected credit loss model is as follows:

Category	Group definition of category	Basis for recognition of expected credit loss provision
Performing	Customers have a low risk of default and a strong capacity to meet contractual cash flows	12 months expected loss. Where the expected lifetime of an asset is less than 12 months, expected losses are measure at its expected lifetime
Underperforming	Receivables for which there is a significant increase in credit risk; as significant increase in credit risk is presumed if interest and/or principal repayments are more than 90 days past due	Lifetime expected losses
Non-performing	Interest and/or principal repayments are more than 365 days past due	Lifetime expected losses
Write-off	Interest and/or principal repayments are more than 3 years past due and there is no reasonable expectation of recovery	Asset is written off

NOTES TO THE FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT (Continued)**3.1 Financial risk factors (Continued)***(c) Liquidity risk*

Due to the capital intensive nature of the Group's business, the Group ensures that it maintains sufficient cash and credit lines to meet its liquidity requirements.

Management monitors rolling forecasts of the Group's liquidity reserve which comprises undrawn borrowing facilities and cash and cash equivalents (note 30) on the basis of expected cash flows. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The table below analyses the Group's financial liabilities into relevant maturity groupings at each balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
At 31 December 2019					
Borrowings (principal amount plus interest)	10,371,372	22,789,927	42,350,318	5,019,851	80,531,468
Trade and note payables (note 31)	2,432,898	–	–	–	2,432,898
Other payables and accrued charges	44,354,511	84,794	1,253,640	–	45,692,945
Lease liabilities	131,735	120,802	161,636	435,785	849,958
Financial guarantee (note 41)	22,125,405	–	–	–	22,125,405
Derivative financial instruments	1,347	–	–	–	1,347
At 31 December 2018					
Borrowings (principal amount plus interest)	7,967,755	10,302,543	32,861,639	7,977,088	59,109,025
Trade and note payables (note 31)	1,407,577	–	–	–	1,407,577
Other payables and accrued charges	27,830,331	–	–	–	27,830,331
Financial guarantee (note 41)	15,822,256	–	–	–	15,822,256

NOTES TO THE FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT (Continued)**3.2 Capital management**

The Group's objectives when managing capital are to

- safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders, and
- maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group's policy is to borrow centrally, using a mixture of long-term and short-term borrowing facilities, to meet anticipated funding requirements. These borrowings, together with cash generated from operations, are on-lent or contributed as equity to certain subsidiaries.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings and lease liabilities less cash and cash equivalents. Total capital is calculated as equity, as shown in the consolidated balance sheet plus net debt.

The gearing ratios at 31 December 2019 and 2018 were as follows:

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Total borrowings (note 34)	71,021,656	53,406,105
Lease liabilities	678,207	–
Less: Cash and cash equivalents (note 30)	(24,105,541)	(21,990,512)
Net debt	47,594,322	31,415,593
Total equity (including non-controlling interests)	55,191,816	42,911,718
Total capital	102,786,138	74,327,311
Gearing ratio	46.3%	42.3%

The total capital amount is subject to externally imposed capital requirement and the Group has complied with the capital requirement during the year. The increase in the gearing ratio during 2019 resulted primarily due to the continuous stable growth in business operation.

NOTES TO THE FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT (Continued)**3.3 Fair value estimation***(a) Financial assets and liabilities***(i) Fair value hierarchy**

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

At 31 December 2019	Level 2 RMB'000	Level 3 RMB'000
Financial assets		
Derivative financial instruments – foreign currency forwards	65,179	–
Financial assets at FVOCI (note 23)	–	1,293,264
Total financial assets	65,179	1,293,264
Financial liabilities		
Derivative financial instrument – embedded derivative of exchangeable bond	–	1,347
<hr/>		
At 31 December 2018	Level 2 RMB'000	Level 3 RMB'000
Financial assets		
Derivative financial instruments – foreign currency forwards	9,069	–
Financial assets at FVOCI (note 23)	–	1,228,635
Total financial assets	9,069	1,228,635

There were no transfers between levels 1, 2 and 3 for recurring fair value measurements during the year.

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

NOTES TO THE FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Fair value estimation (Continued)

(a) Financial assets and liabilities (Continued)

(i) Fair value hierarchy (Continued)

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and equity securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

(ii) Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments include:

- The present value of future cash flows based on forward exchange rates at the balance sheet date
- The fair value of financial assets at FVOCI is derived through the Guideline Public Company Method by using the appropriate market multiples of comparable public company peers in the same or a similar industry
- The fair value of embedded derivative of exchangeable bond is determined using binomial free method

(iii) Fair value measurements using significant unobservable inputs (level 3)

Refer to note 23 for the changes in recurring fair value measurement of financial assets of FVOCI in level 3 for the year ended 31 December 2019 and 31 December 2018.

NOTES TO THE FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Fair value estimation (Continued)

(a) Financial assets and liabilities (Continued)

(iv) Valuation processes

The Group measures its financial assets at FVOCI and embedded derivative of exchangeable bond at fair value. The level 3 financial assets and financial liability were revalued by Jones Lang LaSalle Incorporated ("JLL"), independent qualified valuers not related to the Group, who hold recognised relevant professional qualification at 31 December 2019.

The Group's finance department includes a team that reviews the valuations performed by the independent valuers for financial reporting purposes, including level 3 fair values. This team reports directly to the senior management. Discussions of valuation processes and results are held between the management and valuers at least once every six months, in line with the Group's interim and annual reporting dates.

The main Level 3 input used by the Group for financial assets at FVOCI pertains to the discount for lack of marketability. The discount for lack of marketability is quantified on the basis of relevant restricted stock studies and represents the most significant unobservable input applied to arrive at the fair value measurement.

(v) Fair value of other financial assets and liabilities

The Group also has a number of financial instruments which are not measured at fair value in the balance sheet. For the majority of these instruments, the fair values are not materially different to their carrying amounts, since the interest receivable/payable is either close to current market rates or the instruments are short-term in nature.

- Trade receivables
- Cash and cash equivalents and charged bank deposits
- Other receivables
- Other payables and accrued charges
- Trade and note payables
- Borrowings
- Lease liabilities

NOTES TO THE FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT (Continued)**3.3 Fair value estimation (Continued)***(b) Non-financial assets and liabilities***(i) Fair value hierarchy**

This note explains the judgements and estimates made in determining the fair values of the non-financial assets that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its non-financial assets and liabilities into the three levels prescribed under the accounting standards. An explanation of each level is provided in note 3.3(a).

	Level 3	
	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Investment properties (note 18)	9,438,108	10,865,470
Total non-financial assets	9,438,108	10,865,470

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

There were no transfers between levels 1, 2 and 3 for recurring fair value measurements during the year.

(ii) Valuation techniques used to determine fair values

Fair values of completed investment properties are generally derived using the comparison method and income capitalisation method. This valuation method is based on the capitalisation of the net income and reversionary income potential by adopting appropriate capitalisation rates, which are derived from analysis of sale transactions and valuers' interpretation of prevailing investor requirements or expectations. The prevailing market rents adopted in the valuation have reference to recent lettings, within the subject properties and other comparable properties.

There were no changes to the valuation techniques during the year.

As at 31 December 2019, all investment properties are included in level 3 fair value hierarchy.

NOTES TO THE FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT (Continued)**3.3 Fair value estimation (Continued)***(b) Non-financial assets and liabilities (Continued)***(iii) Fair value measurements using significant unobservable inputs (level 3)**

Refer to note 18 for the change in recurring fair value measurement of level 3 items for the years ended 31 December 2019 and 31 December 2018.

(iv) Valuation inputs and relationships to fair value

The following table summarises the quantitative information about the significant unobservable inputs used in recurring level 3 fair value measurements. See (ii) above for the valuation techniques adopted.

Description	Fair value at 31 December 2019 RMB'000	Valuation technique	Unobservable inputs	Range of unobservable inputs
Completed investment properties in PRC	8,638,619	Comparison method and income capitalisation method	(1) Market price (2) Market rent (3) Capitalisation rate	(1) RMB15,400/sqm to RMB26,700/sqm (2) RMB48/sm/mth to RMB680/sm/mth (3) 3.8% to 7%
Completed investment properties in Hong Kong	799,489	Comparison method and income capitalisation method	(1) Market price (2) Market rent (3) Capitalisation rate	(1) HKD1,829/sq.ft to HKD72,093/sq.ft (2) HKD8/sf/mth to HKD165/sf/mth (3) 2.8% to 5%

NOTES TO THE FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT (Continued)**3.3 Fair value estimation (Continued)***(b) Non-financial assets and liabilities (Continued)***(iv) Valuation inputs and relationships to fair value (Continued)**

Description	Fair value at 31 December 2018 RMB'000	Valuation technique	Unobservable inputs	Range of unobservable inputs
Completed investment properties in PRC	10,032,337	Comparison method and income capitalisation method	(1) Market price (2) Market rent (3) Capitalisation rate	(1) RMB15,333/sqm to RMB26,667/sqm (2) RMB47/sq/mth to RMB660/sq/mth (3) 3.8% to 7%
Completed investment properties in Hong Kong	833,133	Comparison method and income capitalisation method	(1) Market price (2) Market rent (3) Capitalisation rate	(1) HKD1,829/sq.ft to HKD73,256/sq.ft (2) HKD8/sf/mth to HKD189/sf/mth (3) 2.8% to 5%

There are inter-relationships between unobservable inputs. Expected vacancy rates may impact the yield with higher vacancy rates resulting in higher yields.

Capitalisation and discount rates are estimated by JLL based on the risk profile of the properties being valued. The higher the rates, the lower the fair value.

Prevailing market rents are estimated based on recent lettings, within the subject properties and other comparable properties. The lower the rents, the lower the fair value.

NOTES TO THE FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Fair value estimation (Continued)

(b) Non-financial assets and liabilities (Continued)

(v) Valuation processes

The Group measures its investment properties at fair value. The investment properties were revalued by JLL, who have recent experience in the locations and segments of the investment properties valued, at 31 December 2019. For all investment properties, their current use equates to the highest and best use.

The Group's finance department includes a team that review the valuations performed by the independent valuer for financial reporting purposes. This team reports directly to the senior management. Discussions of valuation processes and results are held between the management, the valuation team and valuers at least once every six months, in line with the Group's interim and annual reporting dates.

At each financial year end the finance department:

- Verifies all major inputs to the independent valuation report;
- Assess property valuations movements when compared to the prior year valuation report;
- Holds discussions with the independent valuer.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies.

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

(a) Fair value of investment properties

The fair value of investment properties is determined by using valuation technique. Details of the judgement and assumptions have been disclosed in note 3.3(b).

NOTES TO THE FINANCIAL STATEMENTS

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(b) Net realisable value of properties under development and properties held for sale

The Group writes down properties under development and properties held for sale to net realisable value based on assessment of the realisability of properties under development and properties held for sale which takes into account cost to completion based on past experience and net sales value based on prevailing market conditions. If there is an increase in cost to completion or a decrease in net sales value, the net realisable value will decrease which may result in writing down properties under development and properties held for sale to net realisable value. Write-downs are recorded where events or changes in circumstances indicate that the balances may not be realised. The identification of write-downs requires the use of judgement and estimates. Where the expectation is different from the original estimate, the carrying value of properties under development and properties held for sale is adjusted in the period in which such estimate is changed.

(c) Current and deferred income tax

The Group is subject to income tax primarily in China and Hong Kong. Significant judgement is required in determining the amount of the provision for income taxes and the timing of the related payments. There are many transactions and calculations for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the land appreciation tax, income tax and deferred tax provisions in the period in which such determination are made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised when management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such difference will impact the recognition of deferred tax assets and income tax in the period in which such estimate is changed.

(d) Recoverability of other receivables

The management assesses on a forward looking basis the expected credit losses associated with its other receivables. The impairment methodology applied depends on whether there has been a significant increase in credit risk. The allowance are applied to other receivables where the expectation is different from the original estimate, such difference will impact the carrying amount of other receivables and impairment charge in the periods in which such estimate has been changed.

NOTES TO THE FINANCIAL STATEMENTS

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(e) Consolidation

Control is the basis for consolidation. Control exists when the Group is able to influence profitability of another company through its involvement and power over the operation of another company. To assess whether an entity has control over another entity involves significant judgement. Management has performed an assessment and considered the current accounting treatments for its subsidiaries, associated entities and joint ventures to be appropriate. Yuexiu Real Estate Investment Trust ("Yuexiu REIT") is accounted for as an associated entity since the Group, among other reasons, only has significant influence on but no control over Yuexiu REIT. The key decisions of Yuexiu REIT are principally handled and monitored by an independent trustee and an asset management company.

The Group has no equity in and/or control over the independent trustee. Among other key factors, the Group does not have any power to control the appointment of directors of the asset management company of Yuexiu REIT, as all of the directors are nominated by the nomination committee, which is comprised of a majority of independent non-executive directors. Accordingly, the Group does not control Yuexiu REIT.

5 SEGMENT INFORMATION

The chief operating decision-maker has been identified as the executive directors. Management determines the operating segments based on the Group's internal reports, which are then submitted to the executive directors for performance assessment and resources allocation.

The executive directors consider the business by nature of business activities and assess the performance of property development, property management, property investment and others.

The Group's operating and reportable segments under HKFRS 8 and the types of turnover are as follows:

Property development	sales of property development activities
Property management	property management services
Property investment	property rentals
Others	revenue from real estate agency and decoration services, etc.

The executive directors assess the performance of the operating segments based on a measure of segment results. This measurement basis excludes the effects of non-recurring expenditure from the operating segments and other unallocated operating costs. Other information provided, except as noted below, to the executive directors are measured in a manner consistent with that in the consolidated financial statements.

Total assets excluded deferred tax assets, prepaid taxation and corporate assets. Corporate assets are not directly attributable to segments.

Sales between segments are carried out on terms equivalent to those that prevail in arm's length transactions. The revenue from external parties reported to the executive directors are measured in a manner consistent with that in the consolidated statement of profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

5 SEGMENT INFORMATION (Continued)

	Property development RMB'000	Property management RMB'000	Property investment RMB'000	Others RMB'000	Group RMB'000
Year ended 31 December 2019					
Revenue	34,453,749	1,205,644	738,725	3,749,363	40,147,481
Inter-segment revenue	–	(317,458)	(49,161)	(1,441,750)	(1,808,369)
Revenue from external customers	<u>34,453,749</u>	<u>888,186</u>	<u>689,564</u>	<u>2,307,613</u>	<u>38,339,112</u>
Revenue from contracts with customers:					
Recognised at a point in time	34,453,749	–	–	598,384	35,052,133
Recognised over time	–	888,186	–	1,709,229	2,597,415
Revenue from other sources:					
Rental income	–	–	689,564	–	689,564
Segment results	<u>9,556,614</u>	<u>130,157</u>	<u>458,045</u>	<u>840,754</u>	<u>10,985,570</u>
Depreciation and amortisation	<u>(151,107)</u>	<u>(28,545)</u>	<u>–</u>	<u>(30,375)</u>	<u>(210,027)</u>
Fair value losses on revaluation of investment properties, net	<u>–</u>	<u>–</u>	<u>(23,434)</u>	<u>–</u>	<u>(23,434)</u>
Share of profit/(loss) of:					
– joint ventures	31,457	–	–	(19,420)	12,037
– associated entities	<u>105,601</u>	<u>–</u>	<u>373,384</u>	<u>7,333</u>	<u>486,318</u>

NOTES TO THE FINANCIAL STATEMENTS

5 SEGMENT INFORMATION (Continued)

	Property development RMB'000	Property management RMB'000	Property investment RMB'000	Others RMB'000	Group RMB'000
Year ended 31 December 2018					
Revenue	24,290,331	1,014,908	718,753	1,492,218	27,516,210
Inter-segment revenue	–	(168,412)	(34,038)	(880,316)	(1,082,766)
Revenue from external customers	<u>24,290,331</u>	<u>846,496</u>	<u>684,715</u>	<u>611,902</u>	<u>26,433,444</u>
Revenue from contracts with customers:					
Recognised at a point in time	24,290,331	–	–	439,646	24,729,977
Recognised over time	–	846,496	–	172,256	1,018,752
Revenue from other sources:					
Rental income	–	–	684,715	–	684,715
Segment results	<u>6,113,344</u>	<u>66,415</u>	<u>863,947</u>	<u>115,490</u>	<u>7,159,196</u>
Depreciation and amortisation	<u>(61,984)</u>	<u>(2,686)</u>	<u>–</u>	<u>(302)</u>	<u>(64,972)</u>
Fair value gains on revaluation of investment properties, net	–	–	370,875	–	370,875
Share of profit/(loss) of:					
– joint ventures	61,420	–	–	(2,954)	58,466
– associated entities	<u>25,187</u>	<u>–</u>	<u>385,400</u>	<u>36,162</u>	<u>446,749</u>

NOTES TO THE FINANCIAL STATEMENTS

5 SEGMENT INFORMATION (Continued)

	Property development RMB'000	Property management RMB'000	Property investment RMB'000	Others RMB'000	Group RMB'000
As at 31 December 2019					
Segment assets	196,792,224	1,315,120	9,438,108	2,424,198	209,969,650
Interests in joint ventures	7,116,910	–	–	45,111	7,162,021
Interests in associated entities	3,615,060	–	8,224,747	990,822	12,830,629
Total reportable segments' assets	<u>207,524,194</u>	<u>1,315,120</u>	<u>17,662,855</u>	<u>3,460,131</u>	<u>229,962,300</u>
Total reportable segments' assets include:					
Additions to non-current assets (note)	<u>375,270</u>	<u>60,483</u>	<u>–</u>	<u>653,328</u>	<u>1,089,081</u>
As at 31 December 2018					
Segment assets	131,179,966	1,289,242	10,865,470	2,064,894	145,399,572
Interests in joint ventures	6,410,367	–	1,059	62,446	6,473,872
Interests in associated entities	7,336,060	–	6,298,546	277,707	13,912,313
Total reportable segments' assets	<u>144,926,393</u>	<u>1,289,242</u>	<u>17,165,075</u>	<u>2,405,047</u>	<u>165,785,757</u>
Total reportable segments' assets include:					
Additions to non-current assets (note)	<u>126,332</u>	<u>6,294</u>	<u>5,266</u>	<u>2,947</u>	<u>140,839</u>

Note: Non-current assets represent non-current assets other than properties under development, financial instruments, interests in joint ventures, interests in associated entities and deferred tax assets.

NOTES TO THE FINANCIAL STATEMENTS

5 SEGMENT INFORMATION (Continued)

A reconciliation of total segment results to profit before taxation is provided as follows:

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Segment results	10,985,570	7,159,196
Unallocated operating costs (note)	(91,719)	(88,367)
Other gains, net (note 7)	799,285	1,039,814
Operating profit	11,693,136	8,110,643
Finance income (note 8)	382,497	169,665
Finance costs (note 9)	(1,160,942)	(2,002,121)
Share of profit of:		
- joint ventures (note 21)	12,037	58,466
- associated entities (note 22)	486,318	446,749
Profit before taxation	11,413,046	6,783,402

Note: Unallocated operating costs include mainly staff salaries and other operating expenses of the Company.

A reconciliation of reportable segments' assets to total assets is provided as follows:

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Total reportable segments' assets	229,962,300	165,785,757
Deferred tax assets (note 38)	665,128	492,137
Prepaid taxation	2,416,865	1,772,324
Corporate assets (note)	1,652,962	770,280
Total assets	234,697,255	168,820,498

Note: Corporate assets represent property, plant and equipment, right-of-use assets, derivative financial instruments, other receivables and cash and cash equivalent of the Company.

No geographical segment analysis is shown as more than 90% of the Group's revenue are derived from activities in and from customers located in China and more than 90% of the carrying values of the Group's non-current assets excluding deferred income tax are situated in China.

For the year ended 31 December 2019, the Group does not have any single customer with the transaction value over 10% of the total external sales (2018: same).

NOTES TO THE FINANCIAL STATEMENTS

6 EXPENSES BY NATURE

Cost of sales, selling and marketing costs, and administrative expenses include the following:

	2019	2018
	RMB'000	RMB'000
Cost of properties sold included in cost of sales	23,300,491	16,604,384
Employee benefit expenses (note 13)	1,912,748	1,464,379
Selling and promotion expenses	878,629	571,314
Other tax and surcharge	382,573	324,710
Direct operating expenses arising from investment properties	141,884	133,674
Provision for impairment of properties held for sale (note 25)	179,796	85,591
Operating leases - Land and buildings	—	83,205
Expense related to short-term leases (note 17)	86,467	—
Depreciation of property, plant and equipment (note 16)	72,260	54,724
Amortisation of right-of-use assets (note 17)	108,157	—
Amortisation of intangible assets	29,610	—
Amortisation of land use rights	—	10,248
Auditor's remuneration	6,000	6,000
Other expenses	357,188	397,936
	27,455,803	19,736,165

7 OTHER GAINS, NET

	2019	2018
	RMB'000	RMB'000
Remeasurement gains on interests in a joint venture/associated entities (note 19(b))	765,623	553,636
Gain on disposal of subsidiaries	22,192	463,494
Gain on bargain purchase on acquisition	10,561	40,111
Penalty income/(expense), net	47,332	(17,373)
Fair value loss on supporting arrangement liabilities (note 45(b)(II))	(32,318)	(22,736)
Others	(14,105)	22,682
	799,285	1,039,814

NOTES TO THE FINANCIAL STATEMENTS

8 FINANCE INCOME

	2019 RMB'000	2018 RMB'000
Interest income from bank deposits	158,138	109,933
Interest income on amount due from associated entities (note 45(b)(II)(IV)(VII))	212,626	57,308
Interest income on amount due from joint ventures (note 45(b)(V)(VI))	11,733	2,424
	382,497	169,665

9 FINANCE COSTS

	2019 RMB'000	2018 RMB'000
Interest on bank borrowings and overdrafts	1,609,573	1,356,077
Interest on other borrowings	1,780,848	1,422,669
Interest on borrowings from a shareholder (note 45(b)(VIII))	133,935	–
Interest on borrowings from intermediate holding company (note 45(b)(I))	69,574	128,785
Interest on borrowings from associated entities (note 45(b)(II)(IX)(X)(XI))	33,564	23,000
Interest on loan from ultimate holding company (note 45(b)(XII))	20,634	–
Interest on borrowings from a fellow subsidiary (note 45(b)(III))	4,908	1,982
Interest on borrowings from entities with significant influence over the subsidiaries (note 45(b)(XIII)(XIV)(XV)(XVI))	160,014	194,602
Interest on borrowings from non-controlling interest ("NCI") and related parties of NCI (note (a))	106,908	23,646
Interest expense on lease liabilities (note 17)	19,964	–
Net fair value gains on derivative financial instruments	(17,138)	(8,394)
Fair value losses on forward contract designated as cash flow hedges – transfer from OCI	12,664	–
Net foreign exchange loss on financing activities	12,316	653,146
Total borrowing costs incurred	3,947,764	3,795,513
Less: amount capitalised as properties under development and property, plant and equipment (note (b))	(2,786,822)	(1,793,392)
	1,160,942	2,002,121

NOTES TO THE FINANCIAL STATEMENTS

9 FINANCE COSTS (Continued)

Note:

- (a) The amount represents interest on the amounts of subsidiaries of the Group due to NCI and related parties of NCI. Out of the total amount of approximately RMB5,216 million, the interest bearing balance is approximately RMB2,332 million as at 31 December 2019 (31 December 2018: RMB293 million) and bears interest at a weighted average rate of 5.79% per annum (2018: 5.70% per annum). The balance, which is included in other payables and accrued charges, is denominated in RMB.
- (b) Borrowing costs capitalised during the year are calculated by applying a weighted average capitalisation rate of 5.17 percent per annum (2018: 4.82 percent per annum).

10 TAXATION

- (a) Hong Kong profits tax has been provided at the rate of 16.5 percent (2018: 16.5 percent) on the estimated assessable profit for the year.
- (b) China enterprise income taxation is provided on the profit of the Group's subsidiaries, associated entities and joint ventures in China at 25 percent (2018: 25 percent).

In addition, dividend distribution out of profit of foreign-invested enterprises earned after 1 January 2008 is subject to corporate withholding income tax at tax rates ranging from 5 percent to 10 percent. During the year, withholding income tax was provided for dividend distributed and undistributed profit, recognised based on HKFRS, of the Group's subsidiaries, joint ventures and associated entities in China at tax rates ranging from 5 percent to 10 percent (2018: 5 percent to 10 percent).

- (c) China land appreciation tax is levied at progressive rates ranging from 30 percent to 60 percent on the appreciation of land value, being the proceeds of sales of properties less deductible expenditure including costs of land, development and construction.
- (d) The amount of taxation charged to the consolidated statement of profit or loss comprises:

	2019 RMB'000	2018 RMB'000
Current taxation		
China enterprise income tax	2,540,612	1,472,708
China land appreciation tax	4,094,104	1,870,710
Corporate withholding income tax	267,599	–
Deferred taxation		
Origination and reversal of temporary difference	(354,260)	(10,580)
China land appreciation tax	(28,704)	92,008
Corporate withholding income tax on undistributed profits	163,187	319,063
	6,682,538	3,743,909

NOTES TO THE FINANCIAL STATEMENTS

10 TAXATION (Continued)

- (e) The taxation on the Group's profit before taxation less share of profits and losses of associated entities and joint ventures differs from the theoretical amount that would arise using the enterprise income tax rate of China, where majority of the Group's operations were carried out, is as follows:

	2019 RMB'000	2018 RMB'000
Profit before taxation less share of profit of associated entities and joint ventures	10,914,691	6,278,187
Calculated at China enterprise income tax rate of 25 percent (2018: 25 percent)	2,728,673	1,569,547
Effect of different taxation rates	72,428	75,225
Income not subject to taxation	(18,427)	(34,263)
Expenses not deductible for taxation purposes	391,218	246,686
Net effect of tax loss not recognised and utilisation of previously unrecognised tax losses	28,810	95,613
Effect of land appreciation tax deductible for calculation of income tax purposes	(1,016,350)	(490,680)
Corporate withholding income tax	430,786	319,063
	2,617,138	1,781,191
Land appreciation tax	4,065,400	1,962,718
Taxation charges	6,682,538	3,743,909

- (f) The tax charges relating to components of other comprehensive income are as follows:

	2019			2018		
	Before tax	Tax charges	After tax	Before tax	Tax charges	After tax
Fair value gains of financial assets at FVOCI	64,629	(20,071)	44,558	21,990	(6,829)	15,161

NOTES TO THE FINANCIAL STATEMENTS

11 EARNINGS PER SHARE**Basic**

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company over the weighted average number of ordinary shares in issue during the year.

	2019	2018
Profit attributable to equity holders of the Company (RMB'000)	<u>3,483,351</u>	<u>2,727,885</u>
Weighted average number of ordinary shares in issue ('000)	<u>14,455,290</u>	<u>12,401,307</u>
Basic earnings per share (RMB)	<u>0.2410</u>	<u>0.2200</u>

Diluted

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

Since there was no dilutive potential ordinary shares during the year ended 31 December 2019, diluted earnings per share is equal to basic earnings per share (2018: same).

12 DIVIDENDS

The dividends paid in 2019 was approximately RMB1,433 million (2018: RMB1,006 million). The directors proposed a final dividend of HKD0.049 per ordinary share, totaling approximately RMB681 million. Such dividend is to be approved by the shareholders at the Annual General Meeting on 28 May 2020. These financial statements do not reflect this dividend payable.

	2019	2018
	RMB'000	RMB'000
2019 interim, paid, of HKD0.053 equivalent to RMB0.047 (2018: HKD0.042 equivalent to RMB0.036) per ordinary share	<u>738,513</u>	462,368
Final, proposed, of HKD0.049 equivalent to RMB 0.044 (2018: HKD0.051 equivalent to RMB0.044) per ordinary share	<u>681,220</u>	545,657
	<u>1,419,733</u>	<u>1,008,025</u>

Note:

If the total number of issued ordinary shares as at the record date for the final proposed dividend differs from that as at the date of this announcement, the total amount of the final proposed dividend paid by the Company may change.

NOTES TO THE FINANCIAL STATEMENTS

13 EMPLOYEE BENEFIT EXPENSES

	2019	2018
	RMB'000	RMB'000
Wages, salaries and bonus	1,565,206	1,166,749
Pension costs (defined contribution plans)	83,904	70,166
Medical benefits costs (defined contribution plans)	53,484	46,547
Social security costs	130,913	108,827
Termination benefits	–	1,801
Staff welfare	79,241	70,289
	<u>1,912,748</u>	<u>1,464,379</u>

Pension scheme arrangements

The Group operates a defined contribution scheme ("ORSO Scheme") for certain Hong Kong employees under the Occupational Retirement Schemes Ordinance. Contributions to the ORSO Scheme by the employer and employees are calculated at 5 percent to 20 percent and 5 percent respectively of the employees' basic salaries.

The Group's contributions to the ORSO Scheme are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. There are no forfeited contributions for both years presented.

The Group also participates in the Mandatory Provident Fund Scheme ("MPF Scheme") for other Hong Kong employees. Under the MPF Scheme, each of the Group and its employees makes monthly contributions to the scheme at 5 percent of the employee's relevant income, as defined in the Mandatory Provident Fund Scheme Ordinance. Both the Group's and the employee's contributions are subjected to a cap of HKD1,500 (before 1 Jun 2014: HKD1,250) per month and contributions thereafter are voluntary. The contributions under the MPF Scheme are fully and immediately vested in the employees as accrued benefits once they are paid.

Subsidiaries of the Company in China are required to participate in defined contribution retirement plans organised by the respective Provincial or Municipal Government, and make monthly contributions to the retirement plans in the range of 16 to 24 percent of the monthly salaries of the employees. The Group has no further obligations for the actual payment of pensions beyond its contributions. The state-sponsored retirement plans are responsible for the entire pension obligations payable to retired employees.

NOTES TO THE FINANCIAL STATEMENTS

14 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' emoluments

The remuneration of every director is set out below:

31 December 2019

Name of Director	Emoluments paid or received in respect of a person's services as a director, whether of the Company or its subsidiary undertaking								Total RMB'000
	Fees RMB'000	Salaries RMB'000	Discretionary bonuses (note a (iv)) RMB'000	Pension costs RMB'000	Housing allowance RMB'000	Estimated money value of other benefits (note a (v)) RMB'000	Remuneration paid or receivable in respect of accepting office as director RMB'000	Emoluments paid or receivable in respect of director's other services in connection with the management of the Company or its subsidiary undertaking RMB'000	
LIN Zhaoyuan	–	1,540	3,332	32	38	3,803	–	–	8,745
LIN Feng (note a (ii))	–	1,540	3,942	32	38	3,087	–	–	8,639
LI Feng	–	1,490	2,399	32	38	–	–	–	3,959
CHEN Jing	–	1,490	2,399	32	38	–	–	–	3,959
LIU Yan (note a (ii))	–	1,490	2,399	32	38	–	–	–	3,959
OUYANG Changcheng (note a (i))	109	–	–	–	–	–	–	–	109
YU Lup Fat Joseph	369	–	–	–	–	–	–	–	369
LEE Ka Lun	299	–	–	–	–	–	–	–	299
LAU Hon Chuen Ambrose	299	–	–	–	–	–	–	–	299
Total	1,076	7,550	14,471	160	190	6,890	–	–	30,337

NOTES TO THE FINANCIAL STATEMENTS

14 BENEFITS AND INTERESTS OF DIRECTORS (Continued)**(a) Directors' emoluments (Continued)**

The remuneration of every director is set out below: (Continued)

31 December 2018

Name of Director	Emoluments paid or received in respect of a person's services as a director, whether of the Company or its subsidiary undertaking								Total RMB'000
	Fees RMB'000	Salaries RMB'000	Discretionary bonuses (note a (iv)) RMB'000	Pension costs RMB'000	Housing allowance RMB'000	Estimated money value of other benefits (note a (v)) RMB'000	Remuneration paid or receivable in respect of accepting office as director RMB'000	Emoluments paid or receivable in respect of director's other services in connection with the management of the Company or its subsidiary undertaking RMB'000	
ZHANG Zhaoxing (note a (iii))	–	1,540	3,590	32	44	–	–	–	5,206
ZHU Chunxiu (note a (iii))	–	1,540	2,468	32	44	–	–	–	4,084
LIN Zhaoyuan	–	1,540	3,428	32	44	3,300	–	–	8,344
LIN Feng (note a (ii))	–	586	1,637	32	44	864	–	–	3,163
LI Feng	–	1,490	2,240	32	44	–	–	–	3,806
CHEN Jing	–	1,490	2,240	32	44	–	–	–	3,806
LIU Yan (note a (ii))	–	568	806	32	44	–	–	–	1,450
YU Lup Fat Joseph	355	–	–	–	–	–	–	–	355
LEE Ka Lun	288	–	–	–	–	–	–	–	288
LAU Hon Chuen Ambrose	288	–	–	–	–	–	–	–	288
Total	931	8,754	16,409	224	308	4,164	–	–	30,790

NOTES TO THE FINANCIAL STATEMENTS

14 BENEFITS AND INTERESTS OF DIRECTORS (Continued)

(a) Directors' emoluments (Continued)

Notes:

- (i) Appointed on 23 July 2019.
- (ii) Appointed on 14 August 2018.
- (iii) Resigned on 14 August 2018.
- (iv) Discretionary bonuses are determined by the Group's financial performance.
- (v) Other benefits include share award scheme.

(b) Directors' termination benefits

During the year, no payments or benefits in respect of termination of directors' services were paid or made, directly or indirectly, to the directors; nor are any payable (2018: Nil).

(c) Consideration provided to third parties for making available directors' services

During the year, no consideration was provided to or receivable by third parties for making available directors' services (2018: Nil).

(d) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

During the year, there were no loans, quasi-loans or other dealings in favour of the directors, their controlled bodies corporate and connected entities (2018: Nil).

(e) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Company's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2018: Nil).

15 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

No directors waived emoluments in respect of the year ended 31 December 2019 (2018: same). No emoluments were paid or payable by the Group to any director as an inducement to join or upon joining the Group, or as compensation for loss of office for both years presented.

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2019 are also directors whose emoluments are reflected in the analysis presented in note 14 (2018: same).

NOTES TO THE FINANCIAL STATEMENTS

16 PROPERTY, PLANT AND EQUIPMENT

	Land RMB'000 (note(a))	Buildings RMB'000	Construction in progress RMB'000	Leasehold improvements, furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
Year ended 31 December 2019						
Opening net book amount	5,425	1,090,632	828,989	61,637	8,129	1,994,812
Exchange differences	156	925	–	35	5	1,121
Additions	–	8,638	229,818	28,500	4,031	270,987
Disposals	–	–	–	(1,077)	(221)	(1,298)
Depreciation (note 6)	(16)	(56,129)	–	(14,022)	(2,093)	(72,260)
Transfer	–	–	(55,227)	55,227	–	–
Acquisition of subsidiaries (note 19)	–	–	317,754	689	–	318,443
Disposal of a subsidiary	(5,565)	–	–	(189)	(127)	(5,881)
Closing net book amount	–	1,044,066	1,321,334	130,800	9,724	2,505,924
At 31 December 2019						
Cost	–	1,258,051	1,321,334	233,636	66,181	2,879,202
Accumulated depreciation and impairment	–	(213,985)	–	(102,836)	(56,457)	(373,278)
Net book amount	–	1,044,066	1,321,334	130,800	9,724	2,505,924

NOTES TO THE FINANCIAL STATEMENTS

16 PROPERTY, PLANT AND EQUIPMENT (Continued)

	Land RMB'000 (note(a))	Buildings RMB'000	Construction in progress RMB'000	Leasehold improvements, furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
Year ended 31 December 2018						
Opening net book amount	5,104	623,886	1,272,079	51,035	8,973	1,961,077
Exchange differences	336	1,547	–	67	17	1,967
Additions	–	2,351	110,563	20,686	1,973	135,573
Disposals	–	(47,824)	–	(13)	(52)	(47,889)
Depreciation (note 6)	(15)	(41,457)	–	(10,564)	(2,688)	(54,724)
Transfer to investment properties (note 18)	–	(1,524)	–	–	–	(1,524)
Transfer	–	553,653	(553,653)	–	–	–
Acquisition of subsidiaries	–	–	–	646	–	646
Disposal of a subsidiary	–	–	–	(220)	(94)	(314)
Closing net book amount	<u>5,425</u>	<u>1,090,632</u>	<u>828,989</u>	<u>61,637</u>	<u>8,129</u>	<u>1,994,812</u>
At 31 December 2018						
Cost	12,430	1,248,488	828,989	160,144	64,482	2,314,533
Accumulated depreciation and impairment	<u>(7,005)</u>	<u>(157,856)</u>	<u>–</u>	<u>(98,507)</u>	<u>(56,353)</u>	<u>(319,721)</u>
Net book amount	<u>5,425</u>	<u>1,090,632</u>	<u>828,989</u>	<u>61,637</u>	<u>8,129</u>	<u>1,994,812</u>

Note:

- (a) All the land of the Group are located in Hong Kong with lease terms under 50 years.
(b) Refer to note 42 for information on assets pledged as securities by the Group.

NOTES TO THE FINANCIAL STATEMENTS

17 LEASES

This note provides information for leases where the Group is a lessee.

(i) Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

	Land use rights (note (b)) RMB'000	Properties RMB'000	Total RMB'000
Right-of-use assets			
At 1 January 2019 (note (a))	207,569	47,711	255,280
Additions	—	702,488	702,488
Acquisition of subsidiaries (note 19)	3,216,177	—	3,216,177
Amortisation (note 6)	(11,036)	(97,121)	(108,157)
At 31 December 2019	<u>3,412,710</u>	<u>653,078</u>	<u>4,065,788</u>

Note:

- (a) For adjustments recognised on adoption of HKFRS 16 on 1 January 2019, please refer to note 2.2.
 (b) The Group has the following land lease arrangements with mainland China government.

	31 December 2019 RMB'000	1 January 2019(note) RMB'000
Lease liabilities		
Current	114,542	12,330
Non-current	563,665	35,381
	<u>678,207</u>	<u>47,711</u>

Note: For adjustments recognised on adoption of HKFRS 16 on 1 January 2019, please refer to note 2.2.

NOTES TO THE FINANCIAL STATEMENTS

17 LEASES (Continued)**(ii) Amounts recognised in the statement of profit or loss**

The statement of profit or loss shows the following amounts relating to leases:

	Note	2019 RMB'000	2018 RMB'000
Depreciation charge of right-of-use assets			
Land use rights	6	(11,036)	–
Properties	6	(97,121)	–
Interest expense (included in finance cost)	9	(19,964)	–
Expense relating to short-term leases (included in cost of sales, selling and marketing costs, and administrative expenses)	6	(86,467)	–

(iii) Amounts recognised in cash flow

The payment for lease liabilities and short-term lease are RMB92 million and RMB86 million, respectively.

18 INVESTMENT PROPERTIES

	Completed investment properties		
	China RMB'000	Hong Kong RMB'000	Total RMB'000
Opening balance at 1 January 2019	10,033,249	832,221	10,865,470
Exchange differences	–	17,710	17,710
Disposals	(102,638)	–	(102,638)
Disposal of a subsidiary	(1,319,000)	–	(1,319,000)
Fair value gains/(losses), net (note(a))	27,008	(50,442)	(23,434)
Closing balance at 31 December 2019	8,638,619	799,489	9,438,108

NOTES TO THE FINANCIAL STATEMENTS

18 INVESTMENT PROPERTIES (Continued)

	Completed investment properties		
	China RMB'000	Hong Kong RMB'000	Total RMB'000
Opening balance at 1 January 2018	12,977,160	766,550	13,743,710
Exchange differences	–	35,936	35,936
Transfer from property, plant and equipment (note 16)	1,524	–	1,524
Additions	–	5,266	5,266
Disposals	(92,841)	–	(92,841)
Disposal of a subsidiary	(3,199,000)	–	(3,199,000)
Fair value gains, net (note(a))	346,406	24,469	370,875
Closing balance at 31 December 2018	<u>10,033,249</u>	<u>832,221</u>	<u>10,865,470</u>

(a) The investment properties are leased to tenants under operating leases with rentals payable monthly.

Although the Group is exposed to changes in the residual value at the end of the current leases, the Group typically enters into new operating leases and therefore will not immediately realise any reduction in residual value at the end of these leases. Expectations about the future residual values are reflected in the fair value of the properties.

For minimum lease payments receivable on leases of investment properties, refer to note 39.

Refer to note 42 for information on assets pledged as securities by the Group.

The Group's interests in investment properties at their net book values are analysed as follows:

	2019 RMB'000	2018 RMB'000
In Hong Kong:		
Leases of between 10 to 50 years	799,489	832,221
Outside Hong Kong (note):		
Leases of between 10 to 50 years	8,638,619	10,033,249
	<u>9,438,108</u>	<u>10,865,470</u>

Note: Properties outside Hong Kong comprise properties located in China.

NOTES TO THE FINANCIAL STATEMENTS

18 INVESTMENT PROPERTIES (Continued)

The statement of profit or loss shows the following amounts relating to investment properties:

	2019 RMB'000	2018 RMB'000
Rental income from operating leases	689,564	684,715
Direct operating expenses from property that generated rental income	136,209	131,000
Direct operating expenses from property that did not generate rental income	5,675	2,674
Fair value (losses)/gains on revaluation of investment properties, net	(23,434)	370,875

19 BUSINESS COMBINATION**(a) Acquisition of Guangzhou City Pinxiu Property Development Company Limited**

On 27 February 2019, the Company entered into a conditional subscription agreement ("Subscription Agreement") with Guangzhou Metro Investment Finance (HK) Limited (a wholly-owned subsidiary of Guangzhou Metro Group Co., Ltd ("Guangzhou Metro")) relating to the proposed subscription by Guangzhou Metro Investment Finance (HK) Limited of 3,080,973,807 subscription shares of the Company ("Subscription Shares") at the subscription price of HK\$2.00 per subscription share for a total consideration of HK\$6,162 million (equivalent to RMB5,276 million). The Subscription Shares represent approximately 19.9% of the enlarged issued shares after the allotment and issuance of the Subscription Shares.

Simultaneously, with the entering into of the Subscription Agreement above, Guangzhou Yunhu Real Estate Development Co., Ltd. ("Yunhu Company") (an indirectly non-wholly owned subsidiary of the Company) entered into a set of acquisitions agreements ("Acquisitions Agreements") with Guangzhou Yue Xiu Holdings Limited ("GYHL"), a wholly owned subsidiary of GYHL and Guangzhou Metro respectively, pursuant to which Yunhu Company has conditionally agreed to acquire directly or indirectly, an aggregate of 86% of the equity interest in Guangzhou City Pinxiu Property Development Company Limited ("Pinxiu Company") together with the related balances due to GYHL and Guangzhou Metro. The total consideration for the Acquisitions Agreements was RMB14,082 million in aggregate. The completion of the Acquisitions Agreements was subject to the satisfaction of the conditions that the completion of above Subscription Agreement having taken place.

The above transactions was completed on 11 April 2019. Upon completion of the transactions, Pinxiu Company became an indirect non-wholly owned subsidiary of the Company.

NOTES TO THE FINANCIAL STATEMENTS

19 BUSINESS COMBINATION (Continued)**(a) Acquisition of Guangzhou City Pinxiu Property Development Company Limited (Continued)**

Details of the purchase consideration, the net assets acquired and bargain purchase are as follows:

Consideration	RMB'000
Cash paid (comprises consideration for equity transfer and shareholder's loan transfer)	14,081,683
Cash received from the issuance of shares to Guangzhou Metro	(5,275,613)
Fair value of consideration shares	<u>4,983,940</u>
	<u>13,790,010</u>

The fair value of the 3,080,973,807 Subscription Shares issued as part of the consideration paid for the Company (RMB4,983,940,000) was based on the published share price on the acquisition date of 11 April 2019 of HK\$1.89 (equivalent to RMB1.62) per share.

The assets and liabilities recognised as a result of the acquisition are as follows:

	RMB'000
Property, plant and equipment	689
Properties under development	16,571,000
Contract costs	9,010
Other receivables, prepayments and deposits	32,079
Cash and cash equivalents	417,916
Trade and note payables	(84,180)
Other payables and accrued charges	(2,518,930)
Deferred tax liabilities	<u>(446,449)</u>
Net identifiable assets acquired	13,981,135
Non-controlling interest	(186,992)
Gain on bargain purchase on acquisition	<u>(4,133)</u>
	<u>13,790,010</u>

NOTES TO THE FINANCIAL STATEMENTS

19 BUSINESS COMBINATION (Continued)**(a) Acquisition of Guangzhou City Pinxiu Property Development Company Limited (Continued)**

Analysis of net outflow of cash and cash equivalents in respect of acquisition of a subsidiary:

	RMB'000
Cash paid	(14,081,683)
Cash received	5,275,613
Cash and bank balance acquired	<u>417,916</u>
	<u>(8,388,154)</u>

The acquired business contributed nil of revenues and net losses of RMB108 million to the Group for the period from 11 April 2019 to 31 December 2019.

If the acquisition had occurred on 1 January 2019, consolidated revenue and consolidated profit after tax of the Group for the year ended 31 December 2019 would have been RMB38,339 million and RMB4,617 million respectively.

(b) Acquisition of Guangzhou Huibang Property Company Limited

On 26 April 2019, Guangzhou Yingsheng Investment Co., Ltd. ("Yingsheng Company") (an indirectly non-wholly owned subsidiary of the Company) and Guangzhou Greenland Property Development Co., Ltd. ("Greenland Company") (a third party) entered into voting right transfer agreement under which Greenland Company agreed to transfer 1% of shareholder's voting right in Guangzhou Huibang Property Co., Ltd. ("Huibang Company") to Yingsheng Company with no consideration. The transaction was completed on 30 April 2019.

Upon completion of the transaction, Yingsheng Company's voting right in Huibang Company was increased from 50% to 51% such that Yingsheng Company has control on voting both in the shareholders' meeting and board of directors in Huibang Company. Accordingly, Huibang Company became an indirect non-wholly owned subsidiary of the Company.

Details of the purchase consideration and the net assets acquired are as follows:

	RMB'000
Fair value of 50% shares held by the Group	<u>1,507,532</u>

NOTES TO THE FINANCIAL STATEMENTS

19 BUSINESS COMBINATION (Continued)**(b) Acquisition of Guangzhou Huibang Property Company Limited (Continued)**

The assets and liabilities recognised as a result of the acquisition are as follows:

	RMB'000
Properties under development	5,707,700
Contract costs	66,741
Other receivables, prepayments and deposits	2,557,730
Prepaid taxation	471,620
Cash and cash equivalents	688,783
Trade and note payables	(294)
Contract liabilities	(5,561,764)
Borrowings	(370,000)
Taxation payable	(1,959)
Other payables and accrued charges	(33,094)
Deferred tax liabilities	(510,399)
	<u>3,015,064</u>
Net identifiable assets acquired	3,015,064
Non-controlling interest	(1,507,532)
	<u>1,507,532</u>
Fair value of interest in a joint venture	1,507,532
Less: Interest in a joint venture	(741,909)
	<u>765,623</u>
Remeasurement gain on interest in a joint venture (note 7)	<u>765,623</u>

Analysis of net inflow of cash and cash equivalents in respect of acquisition of a subsidiary:

	RMB'000
Cash paid	–
Cash and bank balance acquired	688,783
	<u>688,783</u>

The acquired business contributed revenues of RMB5,770 million and net profit of RMB50 million to the Group for the period from 30 April 2019 to 31 December 2019.

If the acquisition had occurred on 1 January 2019, consolidated revenue and consolidated profit after tax of the Group for the year ended 31 December 2019 would have been RMB38,339 million and RMB4,746 million respectively.

NOTES TO THE FINANCIAL STATEMENTS

19 BUSINESS COMBINATION (Continued)**(c) Acquisition of Guangzhou Pinyue Property Development Company Limited**

On 10 September 2019, Guangzhou City Construction & Development Group Nansha Co., Ltd. ("Nansha Company") (an indirectly non wholly-owned subsidiary of the Company) entered into an equity transfer agreement with Easyway Incorporation Limited ("Easyway"), the intermediate holding company of Guangzhou Dongyue Industrial Development Company Limited ("Dongyue Company"), pursuant to which Nansha Company agreed to purchase 100% equity interest in the Dongyue Company together with the related balances due to GYHL. Dongyue Company holds 51% of equity interest of Guangzhou Pinyue Property Development Company Limited ("Pinyue Company"). The total consideration for the acquisition was RMB4,862 million in aggregate.

The transaction was completed on 23 October 2019. Upon completion of the transaction, Pinyue Company became an indirect non-wholly owned subsidiary of the Company.

Details of the purchase consideration and the net assets acquired are as follows:

Consideration	RMB'000
Cash paid (comprises consideration for equity transfer and shareholder's loan transfer)	4,862,314

The assets and liabilities recognised as a result of the acquisition are as follows:

	RMB'000
Right-of-use assets	1,809,964
Properties under development	7,446,036
Other receivables, prepayments and deposits	7,108
Cash and cash equivalents	555,343
Other payables and accrued charges	(75,445)
Amount due to a non-controlling interest	(4,031,825)
Deferred tax liabilities	(220,160)
Net identifiable assets acquired	5,491,021
Non-controlling interest	(628,707)
	4,862,314

NOTES TO THE FINANCIAL STATEMENTS

19 BUSINESS COMBINATION (Continued)**(c) Acquisition of Guangzhou Pinyue Property Development Company Limited (Continued)**

Analysis of net outflow of cash and cash equivalents in respect of acquisition of a subsidiary:

	RMB'000
Cash paid	(4,862,314)
Cash and bank balance acquired	<u>555,343</u>
	<u>(4,306,971)</u>

The acquired business contributed nil of revenues and net losses of RMB51 million to the Group for the period from 23 October 2019 to 31 December 2019.

If the acquisition had occurred on 1 January 2019, consolidated revenue and consolidated profit after tax of the Group for the year ended 31 December 2019 would have been RMB38,339 million and RMB4,540 million respectively.

(d) Acquisition of Guangzhou Pinhui Property Development Company Limited

On 10 September 2019, Nansha Company entered into an equity transfer agreement with Easyway, the intermediate holding company of Guangzhou Weixin Industrial Development Company Limited ("Weixin Company"), pursuant to which Nansha Company agreed to purchase 100% equity interest in the Weixin Company together with the related balances due to GYHL. Weixin Company holds 51% equity interest of Guangzhou Pinhui Property Development Company Limited ("Pinhui Company"). The total consideration for the acquisition was RMB4,014 million in aggregate.

The transaction was completed on 23 October 2019. Upon completion of the transaction, Pinhui Company became an indirect non-wholly owned subsidiary of the Company.

Details of the purchase consideration and the net assets acquired are as follows:

	RMB'000
Consideration	
Cash paid (comprises consideration for equity transfer and shareholder's loan transfer)	<u>4,013,865</u>

NOTES TO THE FINANCIAL STATEMENTS

19 BUSINESS COMBINATION (Continued)**(d) Acquisition of Guangzhou Pinhui Property Development Company Limited (Continued)**

The assets and liabilities recognised as a result of the acquisition are as follows:

	RMB'000
Property, plant and equipment	317,754
Right-of-use assets	1,406,213
Properties under development	7,285,033
Other receivables, prepayments and deposits	1,813
Cash and cash equivalents	514,680
Other payables and accrued charges	(1,518,703)
Amount due to a non-controlling interest	(3,270,745)
Deferred tax liabilities	(146,005)
	<u>4,590,040</u>
Net identifiable assets acquired	4,590,040
Non-controlling interest	(576,175)
	<u>4,013,865</u>

Analysis of net outflow of cash and cash equivalents in respect of acquisition of a subsidiary:

	RMB'000
Cash paid	(4,013,865)
Cash and bank balance acquired	514,680
	<u>(3,499,185)</u>

The acquired business contributed nil of revenues and net losses of RMB29 million to the Group for the period from 23 October 2019 to 31 December 2019.

If the acquisition had occurred on 1 January 2019, consolidated revenue and consolidated profit after tax of the Group for the year ended 31 December 2019 would have been RMB38,339 million and RMB4,656 million respectively.

NOTES TO THE FINANCIAL STATEMENTS

20 GAINS ON SALES OF INVESTMENT PROPERTIES

During the year, the Group disposed of certain investment properties with total sales proceeds of approximately RMB137 million (2018: RMB96 million) resulting in a total net gain of approximately RMB34 million (2018: RMB3 million).

21 INTERESTS IN JOINT VENTURES

	2019 RMB'000	2018 RMB'000
Investments in joint ventures		
At 1 January	2,956,566	1,844,186
Additions	476,026	1,053,914
Deem disposal of a joint venture (note 19(b))	(741,909)	–
Share of profit	12,037	58,466
At 31 December 2019	<u>2,702,720</u>	<u>2,956,566</u>
Amounts due from joint ventures (note 45(c))	4,460,300	3,518,305
Less: provision for impairment of amounts due from joint ventures	(999)	(999)
	<u>4,459,301</u>	<u>3,517,306</u>
Total	<u><u>7,162,021</u></u>	<u><u>6,473,872</u></u>

The joint ventures held by the Group have share capital consisting solely of ordinary shares, which are held directly by the Group. All of the joint ventures are private companies with no quoted market price available for its shares.

As at 31 December 2019, there was no individually material joint venture to the Group.

Details of the Group's joint ventures as at 31 December 2019 are set out on page 215.

NOTES TO THE FINANCIAL STATEMENTS

21 INTERESTS IN JOINT VENTURES (Continued)

Set out below are the aggregate summarised financial information for the Group's share of interests in individually immaterial joint ventures which are accounted for using the equity method.

	2019 RMB'000	2018 RMB'000
Assets		
Non-current assets	1,354,833	160,916
Current assets	11,512,884	11,776,825
	<u>12,867,717</u>	<u>11,937,741</u>
Liabilities		
Non-current liabilities	(1,547,745)	(917,500)
Current liabilities	(8,617,252)	(8,063,675)
	<u>(10,164,997)</u>	<u>(8,981,175)</u>
Net assets	<u>2,702,720</u>	<u>2,956,566</u>
Revenue	1,213,044	793,466
Expenses	(1,186,145)	(713,969)
Profit before taxation	26,899	79,497
Taxation	(14,862)	(21,031)
Profit for the year	<u>12,037</u>	<u>58,466</u>

Certain cash and cash equivalents are held in China and are subject to local exchange control regulations. These local exchange control regulations provide for restrictions on exporting capital from country.

The Group's joint ventures did not have any significant capital commitments as at 31 December 2019 (2018: nil).

There are no significant contingent liabilities relating to the Group's interests in the joint ventures.

NOTES TO THE FINANCIAL STATEMENTS

22 INTERESTS IN ASSOCIATED ENTITIES

	2019 RMB'000	2018 RMB'000
Share of net assets	9,369,412	8,714,028
Deferred units (note)	1,339,994	1,554,904
Amounts due from associated entities (note 45(c))	2,121,223	3,643,381
Interests in associated entities	12,830,629	13,912,313

Note: In connection with the disposal of Tower Top Development Limited to Yuexiu REIT, the Group will, on 31 December of each year, receive from Yuexiu REIT certain numbers of units of Yuexiu REIT starting from 31 December 2016. The number of units to be received each year will be limited to the maximum number of units that may be issued to the Group which will not trigger an obligation on the part of the Group to make a mandatory general offer under Rule 26 of the Takeovers Code for all units not already owned or agreed to be acquired by the Group at the relevant time.

Deferred units are part of the consideration of the business acquisition. The number of units to be issued to the Group was fixed at disposal date and is not subject to change across time. It is in substance the prepaid forward contract to deliver a fixed number of units for which the consideration has been received in advance. There is no cash option or derivatives elements in the deferred unit arrangement. This is a contractual arrangement to physically issue the units in accordance with the issuing schedule and no redemption option. The deferred units, once issued, will make the voting right/dividend right of the Group on Yuexiu REIT effective.

The aggregate summarised financial information for the share of Group's interests in its associated entities are as follows:

	2019 RMB'000	2018 RMB'000
Revenue	2,573,155	1,386,470
Profit after tax	486,318	446,749
Assets	24,128,735	23,868,020
Liabilities	(14,759,323)	(15,153,992)
Net assets	9,369,412	8,714,028

Details of the Group's significant associated entities as at 31 December 2019 are set out on page 216.

All the interests in associated entities held by the Group are unlisted except for an investment in a material associated entity, Yuexiu REIT, with a carrying value of approximately RMB4,943 million (2018: RMB4,560 million) which is listed on the Stock Exchange of Hong Kong. The fair value of the interests in this associated entity amounted to approximately RMB5,777 million (2018: RMB4,935 million).

NOTES TO THE FINANCIAL STATEMENTS

22 INTERESTS IN ASSOCIATED ENTITIES (Continued)

Set out below is the summarised financial information for the Group's material associated entity – Yuexiu REIT which is accounted for using the equity method.

	2019 RMB'000	2018 RMB'000
Investment properties	29,982,000	29,115,000
Other non-current assets (excluding investment properties)	4,286,172	4,525,423
Cash and cash equivalents	1,319,010	1,458,755
Other current assets (excluding cash and cash equivalents)	422,346	460,693
Total assets	<u>36,009,528</u>	<u>35,559,871</u>
Non-current liabilities, other than net assets attributable to unitholders	(16,160,688)	(16,326,630)
Current liabilities	(4,460,013)	(3,912,502)
Total liabilities, other than net assets attributable to unitholders	<u>(20,620,701)</u>	<u>(20,239,132)</u>
Net assets attributable to unitholders	<u>(14,314,894)</u>	<u>(14,178,927)</u>
Total liabilities	<u>(34,935,595)</u>	<u>(34,418,059)</u>
Net assets	<u>1,073,933</u>	<u>1,141,812</u>
Revenue	2,058,112	2,031,876
Fair value gain on investment properties	752,700	905,159
Depreciation and amortisation	(126,069)	(117,426)
Finance income	33,748	58,253
Finance expenses	(777,633)	(1,008,160)
Operating expenses	(961,894)	(921,657)
Others	406,999	488,989
Profit before income tax	<u>1,385,963</u>	<u>1,437,034</u>
Income tax expense	(441,828)	(458,369)
Post-tax profit before transactions with unitholders	<u>944,135</u>	<u>978,665</u>
Transactions with unitholders	(867,030)	(1,046,319)
Profit/(loss) after income tax after transactions with unitholders	<u>77,105</u>	<u>(67,654)</u>
Other comprehensive loss	(525)	(35,407)
Total comprehensive income/(loss)	<u>76,580</u>	<u>(103,061)</u>
Dividends received	<u>(275,771)</u>	<u>(278,860)</u>

NOTES TO THE FINANCIAL STATEMENTS

22 INTERESTS IN ASSOCIATED ENTITIES (Continued)

Reconciliation of the summarised financial information presented to the carrying amount of the Group's interest in the material associated entity as follows:

	2019 RMB'000	2018 RMB'000
Net assets attributable to unitholders as at 1 January	14,178,926	13,876,589
Issuance of units	119,132	110,780
Transactions with unitholders	867,030	1,046,319
Distributions paid to unitholders	(850,194)	(854,762)
Net assets attributable to unitholders at 31 December	14,314,894	14,178,926
Net assets attributable to deferred unitholders	(1,339,994)	(1,554,904)
Net assets attributable to normal unitholders	12,974,900	12,624,022
Interest in an associated entity	38.10%	36.12%
Carrying value	4,943,437	4,559,797

23 FINANCIAL ASSETS AT FVOCI

	2019 RMB'000	2018 RMB'000
Opening balance at 1 January	1,228,635	1,206,645
Increase in fair value recognised in other comprehensive income related to equity investments	64,629	21,990
Closing balance at 31 December	1,293,264	1,228,635

Financial assets at FVOCI represent unlisted securities in companies located in China without external credit ratings.

NOTES TO THE FINANCIAL STATEMENTS

23 FINANCIAL ASSETS AT FVOCI (Continued)

The fair value of the common shares held is derived using the Guideline Public Company Method approach. In applying this approach the Group has selected comparable public company peers in the same or a similar industry to provide objective evidence as to values at which investors are willing to buy and sell interest of companies in that industry, and conclude that by applying an appropriate valuation multiple that is a relevant performance measure for its investments.

Valuation multiples are derived from the reported earnings and the period end stock price of companies in the peer group. In applying the valuation multiples, the Price-to-Earnings multiple and Price-to-Book Value multiple have been concluded to be the relevant performance measures for its investments. The Group also adjusts the indicated fair value to give the effect of the discount for lack of marketability compared to the publicly traded peer group when it determines that the market participants would take this into account when pricing the investment. The discount for lack of marketability is quantified on the basis of relevant restricted stock studies and represents the most significant unobservable input applied to arrive at the fair value measurement of equity securities. The Group determines 40% discount for lack of marketability as the significant unobservable inputs.

If the discount for lack of marketability would be changed by +0.5% or -0.5%, the fair value of the investments and other comprehensive income would decrease or increase by approximately RMB11 million (2018: RMB10 million). Management believes that reasonable possible changes to other unobservable inputs would not result in a significant change in the estimated fair value.

24 PROPERTIES UNDER DEVELOPMENT

	2019 RMB'000	2018 RMB'000
Amounts are expected to be completed		
- within the normal operating cycle included under current assets	125,407,543	73,069,099
- beyond the normal operating cycle included under non-current assets	11,532,544	–
	136,940,087	73,069,099

The normal operating cycle of the Group's property development generally ranges from 2 to 3 years.

Properties under development are mainly located in China.

Refer to note 42 for information on assets pledged as securities by the Group.

NOTES TO THE FINANCIAL STATEMENTS

25 PROPERTIES HELD FOR SALE

	2019 RMB'000	2018 RMB'000
At cost	11,197,710	9,086,265
At fair value less cost to sell	2,248,963	1,078,271
	<u>13,446,673</u>	<u>10,164,536</u>

Properties held for sale are mainly located in China.

Refer to note 42 for information on assets pledged as securities by the Group.

A provision for impairment of RMB180 million (2018: RMB86 million) is recognised as expense and included in "cost of sales" (note 6).

26 CONTRACT COSTS

The Group has recognised an asset in relation to costs to obtain the property sales contracts.

	2019 RMB'000	2018 RMB'000
Assets recognised from costs incurred to obtain a contract at 31 December	481,320	334,697
Amortisation recognised as selling expenses during the year	(382,434)	(281,711)

Management expects the incremental costs, primarily sale commission, as a result of obtaining the property sale contracts are recoverable. The Group has capitalised the amounts and amortised when the related revenue are recognised. And there was no impairment loss in relation to the costs capitalised.

27 TRADE RECEIVABLES

	2019 RMB'000	2018 RMB'000
Trade receivables from contracts with customers	77,114	59,721
Loss allowance	(8,805)	(8,805)
	<u>68,309</u>	<u>50,916</u>

Due to the short-term nature of the current receivable, their carrying amount is considered to be the same as their fair value.

NOTES TO THE FINANCIAL STATEMENTS

27 TRADE RECEIVABLES (Continued)

The Group's credit period of the trade receivables is 90 days from the date of invoice. As at 31 December 2019 and 2018, the ageing analysis of the trade receivables from the invoice date is as follows:

	2019 RMB'000	2018 RMB'000
0 - 30 days	29,920	20,216
31 - 180 days	19,760	11,393
181 - 365 days	11,809	13,623
Over 1 year	15,625	14,489
	<u>77,114</u>	<u>59,721</u>

The Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

The Group's trade receivables are denominated in RMB.

28 OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	2019 RMB'000	2018 RMB'000
Amounts due from NCI and related parties of NCI	3,545,897	1,769,631
Amounts due from related parties (Note 45(c))	2,536,703	9,568,456
Deposits	823,714	89,405
Prepaid value added taxes and other taxes	642,888	911,250
Prepayments	492,933	338,236
Other receivables	1,914,148	3,546,110
	<u>9,956,283</u>	<u>16,223,088</u>

Majority of the Group's other receivables are denominated in RMB and interest free.

The maximum exposure to credit risk at each balance sheet date is the carrying value of each class of receivables mentioned above. The fair value of other receivables approximated their carrying amounts.

29 CHARGED BANK DEPOSITS

In accordance with relevant documents issued by local State-Owned Land and Resource Bureau, certain property development companies of the Group are required to place in designated bank accounts certain amount of pre-sale proceeds of properties as guarantee deposits for constructions of related properties. The deposits can only be used for purchase of construction materials and settlement of construction fees of the relevant property projects. Such guarantee deposits will only be released after completion of related pre-sold properties or issuance of the real estate ownership certificate, whichever is the earlier.

NOTES TO THE FINANCIAL STATEMENTS

30 CASH AND CASH EQUIVALENTS

	2019 RMB'000	2018 RMB'000
Cash at bank	24,090,162	21,915,107
Short-term bank deposits	15,379	75,405
	<u>24,105,541</u>	<u>21,990,512</u>

Cash and cash equivalents are denominated in the following currencies:

	2019 RMB'000	2018 RMB'000
HKD	588,102	570,046
RMB	23,143,201	21,069,928
USD	366,543	343,059
Others	7,695	7,479
	<u>24,105,541</u>	<u>21,990,512</u>

The Group's RMB balances are placed with banks in China. The conversion of these RMB denominated balances into foreign currencies in China is subject to rules and regulations of foreign exchange control promulgated by the Chinese Government.

The average effective interest rate on short-term bank deposits was 1 percent (2018: 1 percent).

The Group's bank deposits are mainly placed with major state-owned financial institutions.

31 TRADE AND NOTE PAYABLES

	2019 RMB'000	2018 RMB'000
Trade payables	407,080	260,055
Note payables	2,025,818	1,147,522
	<u>2,432,898</u>	<u>1,407,577</u>

The fair values of trade and note payables approximate their carrying amounts.

NOTES TO THE FINANCIAL STATEMENTS

31 TRADE AND NOTE PAYABLES (Continued)

The ageing analysis of the trade and note payables is as follows:

	2019 RMB'000	2018 RMB'000
0 - 30 days	585,856	560,463
31 - 90 days	676,356	332,645
91 - 180 days	967,073	469,212
181 - 365 days	147,875	21,037
1 - 2 years	42,680	16,579
Over 2 years	13,058	7,641
	<u>2,432,898</u>	<u>1,407,577</u>

Majority of the Group's trade and note payables are denominated in RMB.

32 CONTRACT LIABILITIES

	2019 RMB'000	2018 RMB'000
Contract liabilities	<u>41,942,500</u>	<u>31,637,956</u>

- (a) The Group receives payments from customers based on billing schedules as established in the property sale contracts. Payments are usually received in advance of the performance under the contracts which are mainly from property development and sales. The increase in contract liabilities was mainly attributable to the increase in the Group's contracted sales.
- (b) Revenue recognised in 2019 that was included in the contract liabilities balance at 31 December 2018 is approximately RMB23,646 million (2018: RMB11,083 million).
- (c) For property management services contracts, the Group recognised revenue equals to the right to invoice amount when it corresponds directly with the value to the customer of the Group's performance obligations for these type of contracts. The majority of the property management service contracts do not have a fixed term.
- (d) For other contracts, as a practical expedient, the Group need not disclose transaction price allocated to the remaining performance obligation as the performance obligation is part of a contract that has an original expected duration of one year or less.

NOTES TO THE FINANCIAL STATEMENTS

33 OTHER PAYABLES AND ACCRUED CHARGES

	2019 RMB'000	2018 RMB'000
Accrual for construction related costs	13,843,612	10,763,974
Accrued employee benefits costs	1,219,534	790,887
Amounts due to related parties (note 45(c))	22,675,150	10,873,571
Amounts due to NCI and related parties of NCI (note (a))	5,215,553	3,172,557
Other payables	5,886,968	3,770,440
	48,840,817	29,371,429
Less: non-current proportion of amounts due to related parties	(1,175,663)	–
	47,665,154	29,371,429

Note:

- (a) Out of the total amount of approximately RMB5,216 million, the interest bearing balance is approximately RMB2,332 million as at 31 December 2019 (31 December 2018: RMB293 million) and bears interest at a weighted average rate of 5.79% per annum (2018:5.70% per annum) (see note(9)). Except for an amount of approximately RMB360,717,000 is repayable in 2022, the remaining balance is repayable on demand.
- (b) Majority of the Group's other payables and accrued charges are denominated in RMB.

NOTES TO THE FINANCIAL STATEMENTS

34 BORROWINGS

	2019 RMB'000	2018 RMB'000
Non-current		
Long-term bank borrowings		
– Secured	9,784,060	10,855,895
– Unsecured	15,233,754	9,623,606
Other borrowings (a)		
– Secured	570,160	920,160
– Unsecured	38,295,659	26,220,249
Obligations under finance leases	–	50
	63,883,633	47,619,960
Current		
Bank overdrafts	41	57
Short-term bank borrowings		
– Unsecured	49,377	383,527
Current portion of long-term bank borrowings		
– Secured	2,196,840	2,204,200
– Unsecured	2,790,372	100
Other borrowings (a)		
– Secured	350,000	300,000
– Unsecured	1,751,393	2,898,202
Obligations under finance leases	–	59
	7,138,023	5,786,145
Total borrowings	71,021,656	53,406,105

NOTES TO THE FINANCIAL STATEMENTS

34 BORROWINGS (Continued)**(a) Other borrowings***(i) PRC corporate bonds*

In 2016, the Group issued aggregated nominal value of RMB8,000 million corporate bonds with interest rates ranging from 2.95% to 3.19% per annum and with maturity between 3 years to 7 years. The net proceed, after deducting the issuance costs, amounted to RMB7,968 million. In 2019, an amount of RMB1,000 million of corporate bonds were matured and the issuer adjusted certain coupon rates. As at 31 December 2019, the amount of corporate bonds decreased to RMB7,000 million with interest rates ranging from 3.15% to 3.80%.

In 2018, the Group issued aggregated nominal value of RMB1,500 million corporate bonds with interest rates ranging from 4.24% to 4.25% per annum and with maturity between 3 years to 5 years. The net proceed, after deducting the issuance costs, amounted to approximately RMB1,494 million.

In 2019, the Group issued aggregated nominal value of RMB2,500 million corporate bonds with interest rates ranging from 3.85% to 3.93% per annum and with maturity between 3 years to 5 years. The net proceed, after deducting the issuance costs, amounted to RMB2,491 million.

In 2019, the Group issued aggregated nominal value of RMB1,500 million corporate bonds with interest rates of 3.60% per annum and with maturity of 5 years. The net proceed, after deducting the issuance costs, amounted to RMB1,494 million.

In 2019, the Group issued aggregated nominal value of RMB1,500 million corporate bonds with interest rates of 3.83% per annum and with maturity of 5 years. The net proceed, after deducting the issuance costs, amounted to RMB1,494 million.

Except for the PRC corporate bonds amounting to RMB9,250 million, other PRC corporate bonds contain the early redemption options, which means the Group shall be entitled to adjust the coupon rate whereas the investors shall be entitled to sell back in whole or in part the bonds.

Early redemption options are regarded as embedded derivatives not closely related to the host contract. The directors consider that the fair value of the early redemption options was insignificant as at 31 December 2019 and 2018.

GYHL, the ultimate holding company, provides guarantee for above corporate bond (note 45(e)).

(ii) Private placement note

In 2019, the Group issued aggregated nominal value of RMB1,800 million private placement note with interest rates of 4.03% per annum and with maturity of 5 years. The net proceed, after deducting the issuance costs, amounted to RMB1,797 million.

NOTES TO THE FINANCIAL STATEMENTS

34 BORROWINGS (Continued)

(a) Other borrowings (Continued)

(iii) Medium term notes

In 2013, the Group issued medium-term notes of USD500 million with an interest rate of 4.50% per annum and with maturity in 2023.

In 2014, the Group issued medium term notes of HKD2,300 million with an interest rate of 6.10% per annum and with maturity in 2029.

In 2018, the Group borrowed a loan of RMB1,111 million with a 9-year maturity. The interest rates are ranging from 4.98% to 5.50% per annum.

In 2018, the Group issued medium term notes of USD1,200 million with interest rates ranging from 4.875% to 5.375% per annum and with maturity between 2021 to 2023. The net proceed, after deducting the issuance costs, amounted to USD1,191 million.

(iv) Exchangeable bond

The Group issued an exchangeable bond with an aggregate cash proceeds of HKD1.1 billion, which will be matured on 27 April 2020. The bonds bear interest at the rate of 1.875% per annum. Each bondholder have the right to deposit all or any of its bonds with, or to the order of, the Group and to receive in exchange a pro rata share of the units in Yuexiu REIT as at the relevant exchange date.

The maturity of borrowings is as follows:

	Bank borrowings and overdrafts		Other loans	
	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
Within one year	5,036,630	2,587,884	2,101,393	3,198,261
In the second year	6,742,277	6,805,171	13,527,890	1,656,000
In the third to fifth year	16,431,829	11,096,030	22,955,526	20,284,116
Over five years	1,843,708	2,578,300	2,382,403	5,200,343
	30,054,444	23,067,385	40,967,212	30,338,720

The effective interest rates at the balance sheet date were as follows:

	2019			2018		
	HKD	RMB	USD	HKD	RMB	USD
Bank borrowings	3.09%	5.01%	—	2.62%	5.57%	—
Other borrowings	5.06%	4.74%	4.88%	6.27%	4.37%	4.83%
Bank overdrafts	5.50%	—	—	3.48%	—	—

NOTES TO THE FINANCIAL STATEMENTS

34 BORROWINGS (Continued)

(a) Other borrowings (Continued)

(iii) Exchangeable bond (Continued)

The carrying amounts of the borrowings are denominated in the following currencies:

	2019 RMB'000	2018 RMB'000
HKD	9,583,689	7,144,654
RMB	49,621,641	34,657,300
USD	11,816,326	11,604,151
	71,021,656	53,406,105

The fair values of borrowings approximate their carrying amounts.

35 SHARE CAPITAL

	Number of shares 2019 (‘000)	Number of shares 2018 (‘000)	Share capital 2019 RMB'000	Share capital 2018 RMB'000
At 1 January	12,401,307	12,401,307	12,759,402	12,759,402
Issues of ordinary shares relating to acquisition of subsidiary, net of transaction cost and tax (note 19(a))	3,080,973	—	5,275,613	—
At 31 December	15,482,280	12,401,307	18,035,015	12,759,402

Ordinary shares have no par value.

36 SHARES HELD UNDER SHARE AWARD SCHEME**Adoption of the share award scheme**

The share award scheme for employees of the Group was adopted by the Board of the Company on 17 March 2017 (the "Adoption Date"). The share award scheme shall be valid and effective for nine years commencing from the Adoption Date (the "Scheme Period"), subject to any early termination as may be determined by the Board.

Scheme Limit

The total number of shares awarded under the share award scheme shall not exceed 3% (the "Scheme Limit") of the number of shares in issue as at the Adoption Date, and the Board may from time to time "refresh" the Scheme Limit provided that the total number of scheme shares awarded and to be awarded must not exceed 5% of the number of shares in issue as at the date of the resolution to approve the "refreshed" limit.

NOTES TO THE FINANCIAL STATEMENTS

36 SHARES HELD UNDER SHARE AWARD SCHEME (Continued)**Operation**

Pursuant to the scheme rules of the share award scheme (the "Scheme Rules"), the Board of the Company may from time to time at its absolute discretion select any employee to be a selected senior management participant and determine and allocate the number of shares to be granted to a selected participant pursuant to an award in accordance with the Scheme Rules. The Company has entered into a trust deed with the trustee (the "Trustee") for implementing the share award scheme. The Group will pay to the Trustee the purchase monies for the purchase of shares for the purpose of the share award scheme, and the Trustee shall apply the full amount of such purchase monies received from the Group towards the purchase of the maximum number of shares from the market and shall hold such shares on trust during the Scheme Period.

	2019 Shares ('000)	2018 Shares ('000)	2019 RMB'000	2018 RMB'000
Shares held under share award scheme	(56,571)	(44,283)	(81,577)	(55,220)

These shares are acquired from the market by the Group's Employee Share Trust under the share award scheme.

	Number of shares ('000)	RMB'000
Opening balance 1 January 2018	(17,192)	(21,301)
Acquisition of shares by the Trust	(27,091)	(33,919)
Balance 31 December 2018	(44,283)	(55,220)
Acquisition of shares by the Trust	(32,233)	(51,183)
Shares granted to employees	19,945	24,826
Balance 31 December 2019	(56,571)	(81,577)

The weighted average price of awarded shares held during the year ended 31 December 2019 was approximately RMB1.44 per share (2018: RMB1.25 per share).

19,944,867 shares were granted to the relevant selected participants during the year ended 31 December 2019 (2018: nil). As at 31 December 2019, the total number of issued ordinary shares of the Company included 56,571,094 shares held under the share award scheme (31 December 2018: 44,283,335 shares).

NOTES TO THE FINANCIAL STATEMENTS

37 RESERVES

	Statutory reserves (note (a))	Exchange fluctuation reserve	Financial assets at FVOCI (note b)	Hedging reserve	Others	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2019	213,964	(503,324)	745,865	(834)	–	20,666,714	21,122,385
Currency translation differences	–	(205,091)	–	–	–	–	(205,091)
Change in fair value of equity investment at FVOCI							
– gross	–	–	61,398	–	–	–	61,398
– tax	–	–	(15,349)	–	–	–	(15,349)
– effect of withholding tax	–	–	(3,914)	–	–	–	(3,914)
Gains on cash flow hedges	–	–	–	31,374	–	–	31,374
Costs of hedging	–	–	–	7,597	–	–	7,597
Hedging losses reclassified to profit or loss	–	–	–	12,664	–	–	12,664
Profit attributable to shareholders	–	–	–	–	–	3,483,351	3,483,351
Dividends paid	–	–	–	–	–	(1,432,672)	(1,432,672)
Issuance of shares	–	–	–	–	(291,673)	–	(291,673)
Transfer to appropriation	514,672	–	–	–	–	(514,672)	–
At 31 December 2019	<u>728,636</u>	<u>(708,415)</u>	<u>788,000</u>	<u>50,801</u>	<u>(291,673)</u>	<u>22,202,721</u>	<u>22,770,070</u>
Representing:							
2019 final dividend proposed						681,220	
Others						<u>21,521,501</u>	
						<u>22,202,721</u>	

NOTES TO THE FINANCIAL STATEMENTS

37 RESERVES (Continued)

	Statutory reserves (note (a))	Exchange fluctuation reserve	Available- for-sale financial assets fair value reserve	Financial assets at FVOCI (note b)	Hedging reserve	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2017	213,964	(88,114)	731,529	–	–	18,790,158	19,647,537
Change in accounting policy	–	–	(731,529)	731,529	–	154,727	154,727
Restated as at 1 January 2018	213,964	(88,114)	–	731,529	–	18,944,885	19,802,264
Currency translation differences	–	(415,210)	–	–	–	–	(415,210)
Change in fair value of equity investment at FVOCI							
- gross	–	–	–	20,891	–	–	20,891
- tax	–	–	–	(5,223)	–	–	(5,223)
- effect of withholding tax	–	–	–	(1,332)	–	–	(1,332)
Losses on cash flow hedges	–	–	–	–	(834)	–	(834)
Profit attributable to shareholders	–	–	–	–	–	2,727,885	2,727,885
Dividends paid	–	–	–	–	–	(1,006,056)	(1,006,056)
At 31 December 2018	<u>213,964</u>	<u>(503,324)</u>	<u>–</u>	<u>745,865</u>	<u>(834)</u>	<u>20,666,714</u>	<u>21,122,385</u>
Representing:							
2018 final dividend proposed						545,657	
Others						<u>20,121,057</u>	
						<u>20,666,714</u>	

Note:

(a) Statutory reserves

Statutory reserves represent enterprise expansion and general reserve funds set up by the subsidiaries, joint ventures and associated entities in China. As stipulated by regulations in China, the Company's subsidiaries, joint ventures and associated entities established and operated in China are required to appropriate a portion of their after-tax profits (after offsetting prior year losses) to the enterprise expansion and general reserve funds, at rates determined by their respective boards of directors. According to the Regulations for the Implementation of the Law of The People's Republic of China on Joint Ventures Using Chinese and Foreign Investment, upon approval, the general reserve funds may be used for making up losses and increasing capital while the enterprise expansion funds may be used for increasing capital only.

(b) Financial asset at FVOCI

The Group has elected to recognise changes in the fair value of certain investments in equity securities in OCI, as explained in note 2.12. These changes are accumulated within the FVOCI reserve within equity. The Group transfers amounts from this reserve to retained earnings when the relevant equity securities are derecognised.

NOTES TO THE FINANCIAL STATEMENTS

38 DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using the applicable income tax rate. The majority of the deferred tax assets and liabilities are expected to be recovered after more than 12 months.

The gross movements on the deferred tax account are as follows:

	2019 RMB'000	2018 RMB'000
Beginning of the year	5,111,990	4,357,009
(Credit)/charged to profit or loss during the year (note 10)	(219,777)	400,491
Disposal of a subsidiary	—	(204,260)
Acquisition of subsidiaries (note 19)	1,323,013	716,995
Deferred taxation charged to equity (note 10)	20,071	6,829
Dividend payment	—	(167,132)
Exchange differences	10,590	2,058
End of the year	<u>6,245,887</u>	<u>5,111,990</u>

The movements in deferred tax assets (prior to offsetting of balances within the same taxation jurisdiction) during the year are as follows:

	Different bases in reporting expenses with tax authorities RMB'000	Provision for impairment of properties RMB'000	Tax losses RMB'000	Others RMB'000	Total RMB'000
At 1 January 2019	246,690	63,775	196,703	1,021	508,189
Acquisition of subsidiaries	—	—	240,050	—	240,050
Credit to profit or loss during the year	40,650	43,557	63,475	—	147,682
At 31 December 2019	<u>287,340</u>	<u>107,332</u>	<u>500,228</u>	<u>1,021</u>	<u>895,921</u>
At 1 January 2018	45,687	42,377	246,674	1,021	335,759
Acquisition of subsidiaries	84,349	—	—	—	84,349
Credit/(charged) to profit or loss during the year	116,654	21,398	(49,971)	—	88,081
At 31 December 2018	<u>246,690</u>	<u>63,775</u>	<u>196,703</u>	<u>1,021</u>	<u>508,189</u>

NOTES TO THE FINANCIAL STATEMENTS
38 DEFERRED TAXATION (Continued)

The movements in deferred tax liabilities (prior to offsetting of balances within the same jurisdiction), during the year are as follows:

	Revaluation of properties RMB'000	Accelerated depreciation RMB'000	Revaluation of financial assets at FVOCI RMB'000	Different bases in reporting revenue with tax authorities RMB'000	Others RMB'000	Withholding tax on profit to be distributed in future RMB'000	Total RMB'000
At 1 January 2019	3,686,617	–	287,645	–	–	1,645,917	5,620,179
Exchange differences	10,590	–	–	–	–	–	10,590
(Credited)/charged to profit or loss during the year	(235,282)	–	–	–	–	163,187	(72,095)
Credited to reserves	–	–	16,157	–	–	3,914	20,071
Acquisition of subsidiaries	1,563,063	–	–	–	–	–	1,563,063
At 31 December 2019	<u>5,024,988</u>	<u>–</u>	<u>303,802</u>	<u>–</u>	<u>–</u>	<u>1,813,018</u>	<u>7,141,808</u>
At 1 January 2018	2,850,366	53,919	282,148	4,241	9,439	1,492,655	4,692,768
Exchange differences	2,058	–	–	–	–	–	2,058
Charged/(credited) to profit or loss during the year	237,109	(53,919)	–	(4,241)	(9,439)	319,063	488,572
Credited to reserves	–	–	5,497	–	–	1,332	6,829
Disposal of subsidiaries	(204,260)	–	–	–	–	–	(204,260)
Acquisition of subsidiaries	801,344	–	–	–	–	–	801,344
Dividend payment	–	–	–	–	–	(167,132)	(167,132)
At 31 December 2018	<u>3,686,617</u>	<u>–</u>	<u>287,645</u>	<u>–</u>	<u>–</u>	<u>1,645,917</u>	<u>5,620,179</u>

NOTES TO THE FINANCIAL STATEMENTS

38 DEFERRED TAXATION (Continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown on the consolidated balance sheet:

	2019 RMB'000	2018 RMB'000
Deferred tax assets		
– China enterprise income tax	665,128	492,137
	<u>665,128</u>	<u>492,137</u>
Deferred tax liabilities		
– Hong Kong profits tax	28,956	26,842
– China enterprise income tax	5,694,919	4,361,441
– China land appreciation tax	1,187,140	1,215,844
	<u>6,911,015</u>	<u>5,604,127</u>

Deferred tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefits through future taxation profits is probable. As at 31 December 2019, the Group had unrecognised deferred tax benefits of approximately RMB483 million (2018: RMB507 million) in respect of tax losses of approximately RMB2,378 million (2018: RMB1,161 million). Tax losses amounting to RMB1,065 million (2018: RMB944 million) will expire at various dates up to and including 2024 (2018: 2023). The remaining tax losses have no expiry date.

39 NON-CANCELLABLE OPERATING LEASES

At 31 December 2019, the Group had future minimum rental payments receivable under certain non-cancellable leases as follows:

	2019 RMB'000	2018 RMB'000
Not later than one year	407,757	388,138
Later than one year and not later than five years	515,405	741,384
Later than five years	155,067	185,839
	<u>1,078,229</u>	<u>1,315,361</u>

NOTES TO THE FINANCIAL STATEMENTS

40 CAPITAL COMMITMENTS

	2019 RMB'000	2018 RMB'000
Capital commitments in respect of property, plant and equipment:		
Contracted but not provided for	449,315	486,092
Authorised but not contracted for	276,641	311,906
	<u>725,956</u>	<u>797,998</u>

41 GUARANTEES

	2019 RMB'000	2018 RMB'000
Guarantees for mortgage facilities granted to certain property purchasers of the Group's properties (note (a))	20,090,477	13,692,282
Guarantee for banking and loan facility granted to associated entities (note (b))	974,928	779,974
Guarantees for banking and loan facilities granted to joint ventures (note (b))	1,060,000	1,350,000
	<u>22,125,405</u>	<u>15,822,256</u>

Note:

- (a) The Group provided guarantees in respect of mortgage facilities granted by certain banks relating to the mortgage loans arranged for certain purchasers of the Group's properties. Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, the Group is responsible for repaying the outstanding mortgage principals together with accrued interest and penalty owed by the defaulted purchasers to the banks and the Group is entitled to take over the legal title and possession of the related properties. Such guarantees shall terminate upon issuance of the relevant property ownership certificates.
- (b) As at 31 December 2019, certain subsidiaries of the Group provided guarantees up to a limit of approximately RMB2,035 million (31 December 2018: RMB2,130 million) in respect of loans borrowed by joint ventures and associated entities of the Group, among which guarantees of approximately RMB1,007 million (31 December 2018: RMB1,198 million) were utilised and guarantees of approximately RMB1,028 million (31 December 2018: RMB932 million) were not utilised yet.

42 SECURITIES FOR BANKING FACILITIES

At 31 December 2019, certain banking facilities and loans granted to the Group were secured by:

- (a) mortgages of certain of the Group's properties under development, properties held for sale, investment properties and property, plant and equipment with aggregate carrying values of approximately RMB29,051 million (2018: RMB29,365 million), RMB170 million (2018: RMB1,435 million), RMB6,690 million (2018: RMB6,650 million) and RMB686 million (2018: RMB639 million) respectively and;
- (b) mortgages of certain of the Group's right-of-use assets (2018: land use rights) with an aggregate carrying value is RMB7 million (2018: RMB7 million).

NOTES TO THE FINANCIAL STATEMENTS

43 LIABILITIES FROM FINANCING ACTIVITIES

	Borrowings due within 1 year (excluding overdraft) RMB'000	Borrowings due after 1 year RMB'000	Lease Liabilities RMB'000	Other payables RMB'000	Total RMB'000
Liabilities from financing activities as at 31 December 2018	(5,786,088)	(47,619,960)	–	(14,083,748)	(67,489,796)
Changes in accounting policies	–	–	(47,711)	–	(47,711)
Cash flows	6,608,881	(19,519,839)	91,956	(4,026,773)	(16,845,775)
Foreign exchange adjustments	(2,937)	(393,207)	–	–	(396,144)
Transfer between borrowings due within 1 year and after 1 year	(7,955,419)	7,955,419	–	–	–
Addition of lease liabilities	–	–	(702,488)	–	(702,488)
Amortisation of lease liabilities	–	–	(19,964)	–	(19,964)
Acquisition of subsidiaries	–	(4,270,000)	–	(10,286,213)	(14,556,213)
Transfer to capital	–	–	–	887,099	887,099
Other changes (a)	(2,419)	(36,046)	–	(460,967)	(499,432)
Liabilities from financing activities as at 31 December 2019	(7,137,982)	(63,883,633)	(678,207)	(27,970,602)	(99,670,424)

	Borrowings due within 1 year (excluding overdraft) RMB'000	Borrowings due after 1 year RMB'000	Other payables RMB'000	Total RMB'000
Liabilities from financing activities as at 31 December 2017	(8,461,575)	(39,247,462)	(9,589,067)	(57,298,104)
Cash flows	7,620,583	(1,442,042)	(4,499,202)	1,679,339
Foreign exchange adjustments	91,159	(1,208,917)	–	(1,117,758)
Transfer between borrowings due within 1 year and after 1 year	(3,517,852)	3,517,852	–	–
Acquisition of subsidiaries	(1,517,000)	(9,137,255)	544,601	(10,109,654)
Other changes (a)	(1,403)	(102,136)	(540,080)	(643,619)
Liabilities from financing activities as at 31 December 2018	(5,786,088)	(47,619,960)	(14,083,748)	(67,489,796)

Note:

- (a) Other changes include non-cash movements and cash received or payment which are presented as operating cash flows in the statement of cash flows.

NOTES TO THE FINANCIAL STATEMENTS

44 NON-CONTROLLING INTERESTS

Set out below is summarised financial information for each subsidiary that has non-controlling interests that are material to the Group. The amounts disclosed for each subsidiary are before inter-company eliminations.

Summarised balance sheet	廣州宏勝 房地產開發有限公司		廣州東耀 房地產開發有限公司		海南白馬 建設開發有限公司	
	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Current assets	13,687,960	16,234,997	9,582,436	15,836,463	19,632	3,398,033
Current liabilities	6,704,164	7,831,467	4,024,525	12,364,553	1,902,719	1,587,593
Current net assets/(liabilities)	6,983,796	8,403,530	5,557,911	3,471,910	(1,883,087)	1,810,440
Non-current assets	22,148	12,492	188,717	160,831	4,011,683	647,110
Non-current liabilities	1,080,333	2,664,487	1,895,122	2,052,195	1,421,228	1,638,467
Non-current net (liabilities)/assets	(1,058,185)	(2,651,995)	(1,706,405)	(1,891,364)	2,590,455	(991,357)
Net assets	5,925,611	5,751,535	3,851,506	1,580,546	707,368	819,083
Accumulated NCI	2,905,656	2,820,201	1,929,966	764,788	346,095	404,746

Summarised statement of comprehensive income	廣州宏勝 房地產開發有限公司		廣州東耀 房地產開發有限公司		海南白馬 建設開發有限公司	
	2019	2018	2019	2018	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	1,684,954	1,325,388	9,414,589	1,305,276	–	–
Profit/(loss) for the period	174,076	(48,465)	2,270,960	7,959	(111,716)	(95,735)
Other comprehensive income	–	–	–	–	–	–
Total comprehensive income	174,076	(48,465)	2,270,960	7,959	(111,716)	(95,735)
Profit/(loss) allocated to NCI	85,455	(23,792)	1,165,178	4,083	(58,651)	(50,261)
Dividends paid to NCI	–	–	–	–	–	–

NOTES TO THE FINANCIAL STATEMENTS

44 NON-CONTROLLING INTERESTS (Continued)

Summarised cash flows	廣州宏勝 房地產開發有限公司		廣州東耀 房地產開發有限公司		海南白馬 建設開發有限公司	
	2019	2018	2019	2018	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cash flows from operating activities	1,050,550	810,555	5,035,164	4,388,376	(176,199)	(53,259)
Cash flows from investing activities	–	–	–	–	–	–
Cash flows from financing activities	(583,736)	(588,677)	(5,123,854)	(3,539,629)	166,247	43,147
Net increase/(decrease) in cash and cash equivalents	466,814	221,878	(88,690)	848,747	(9,952)	(10,112)

Summarised balance sheet	廣州市品秀 房地產開發有限公司		廣州市品悅 房地產開發有限公司		廣州市品蒼 房地產開發有限公司	
	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Current assets	15,557,855	–	5,811,683	–	5,134,912	–
Current liabilities	8,668,793	–	8,703,107	–	8,313,947	–
Current net assets/(liabilities)	6,889,062	–	(2,891,424)	–	(3,179,035)	–
Non-current assets	3,158,931	–	4,414,846	–	4,501,484	–
Non-current liabilities	2,474,813	–	293,847	–	177,889	–
Non-current net assets	684,118	–	4,120,999	–	4,323,595	–
Net assets	7,573,180	–	1,229,575	–	1,144,560	–
Accumulated NCI	1,058,230	–	601,851	–	560,658	–

NOTES TO THE FINANCIAL STATEMENTS

44 NON-CONTROLLING INTERESTS (Continued)

Summarised statement of comprehensive income	廣州市品秀 房地產開發有限公司		廣州市品悅 房地產開發有限公司		廣州市品蒼 房地產開發有限公司	
	2019	2018	2019	2018	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	–	–	–	–	–	–
Loss for the period	102,422	–	53,501	–	31,306	–
Other comprehensive income	–	–	–	–	–	–
Total comprehensive income	102,422	–	53,501	–	31,306	–
Loss allocated to NCI	18,325	–	27,450	–	16,063	–
Dividends paid to NCI	–	–	–	–	–	–

Summarised cash flows	廣州市品秀 房地產開發有限公司		廣州市品悅 房地產開發有限公司		廣州市品蒼 房地產開發有限公司	
	2019	2018	2019	2018	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cash flows from operating activities	2,685,848	–	118,193	–	(73,481)	–
Cash flows from investing activities	–	–	–	–	–	–
Cash flows from financing activities	(2,313,942)	–	(65)	–	(36)	–
Net increase/(decrease) in cash and cash equivalents	371,906	–	118,128	–	(73,517)	–

NOTES TO THE FINANCIAL STATEMENTS

45 SIGNIFICANT RELATED PARTY TRANSACTIONS

(a) Related parties

The Company's ultimate holding company is Guangzhou Yue Xiu Holdings Limited. The table below summarises the names of related parties, with whom the Group has significant transactions during the year, and their relationship with the Company as at 31 December 2019:

Significant related parties	Relationship with the Company
GYHL	Ultimate holding company
Yue Xiu Enterprises (Holdings) Limited ("YXE")	Intermediate holding company
Guangzhou Metro	A shareholder
Yuexiu REIT	An associated entity
Guangzhou Jiachuang Economic Information Consulting Co., Ltd ("Guangzhou Jiachuang")	A subsidiary of an associated entity
杭州星日房地產開發有限公司("杭州星日")	An associated entity
廣州宏軒房地產開發有限公司("廣州宏軒")	An associated entity
廣州宏嘉房地產開發有限公司("廣州宏嘉")	An associated entity
廣州環擘房地產開發有限公司("廣州環擘")	An associated entity
成都人居興彭置業有限公司("成都人居")	A joint venture
濟南鵬遠置業有限公司("濟南鵬遠")	A joint venture
Chong Hing Bank Limited ("CHB")	A fellow subsidiary
Guangzhou Yuexiu Financial Leasing Co., Ltd ("GYFL")	A fellow subsidiary
Guangzhou City Construction & Development Holdings Co., Ltd. ("GCCD")	A fellow subsidiary
廣州越展資產經營管理有限公司("廣州越展")	A fellow subsidiary
廣州造紙集團有限公司("廣州造紙")	A fellow subsidiary
Guangzhou Securities Company Limited ("GSCL")	A fellow subsidiary
廣州資產管理有限公司("資產管理")	An associated entity of a fellow subsidiary
金鷹基金管理有限公司("金鷹")	An associated entity of a fellow subsidiary
廣州悅錦諮詢有限責任公司("廣州悅錦")	A subsidiary of an associated entity
深圳安創投資管理有限公司("深圳安創")	Entity with significant influence over the subsidiaries
桐鄉市安豪投資管理有限公司("桐鄉安豪")	Entity with significant influence over the subsidiaries
廣州聯衡置業有限公司("廣州聯衡")	Entity with significant influence over the subsidiaries
深圳聯新投資管理有限公司("深圳聯新")	Entity with significant influence over the subsidiaries
Guangzhou Hong Sheng Property Development Co., Ltd. ("GHPD")	Note

Note: GHPD was an associated company and has become a subsidiary since 6 June 2018.

NOTES TO THE FINANCIAL STATEMENTS

45 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)**(b) Transactions with related parties**

Save as disclosed in note 19 in these financial statements, the Group had the following transactions with related parties during the year:

	2019 RMB'000	2018 RMB'000
(I) Transactions with YXE		
Rental expenses and property management fees	(28)	(2,390)
Interest expense (note 9)	(69,574)	(128,785)
Gain on foreign currency forward	3,635	–
Addition of right-of-use assets	10,331	–
Interest expense on lease liabilities	(405)	–
Repayment of lease liabilities	(3,687)	–
Acquisition of subsidiaries	(22,666,189)	–
(II) Transactions with Yuexiu REIT		
Gain on disposal of a subsidiary	–	48,356
Tenancy service fees income	26,576	24,547
Rental expenses	–	(75,941)
Expense related to short-term leases	(27,592)	–
Interest expense (note 9)	(19,983)	(23,000)
Interest income (note 8)	–	18,354
Fair value loss on supporting arrangement liabilities (note 7)	(32,318)	(22,736)
Addition of right-of-use assets	175,997	–
Interest expense on lease liabilities	(7,292)	–
Repayment of lease liabilities	(69,046)	–
Sales of investment properties	93,333	–
(III) Transaction with CHB		
Deposit interest income	23,375	14,065
Rental income	12,418	11,177
Interest expenses (note 9)	(4,908)	(1,982)
(Loss)/gain on foreign currency forward	(17,566)	29,218
Proceeds from management services	3,081	2,307
Exchange gain/(loss) on bank deposits	22,728	(4,250)
(IV) Transaction with 杭州星日		
Interest income (note 8)	212,626	–
(V) Transaction with 濟南鵬遠		
Interest income (note 8)	4,238	2,424
(VI) Transaction with 成都人居		
Interest income (note 8)	7,495	–
(VII) Transaction with GHPD		
Interest income (note 8)	–	38,954

NOTES TO THE FINANCIAL STATEMENTS

45 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)**(b) Transactions with related parties (Continued)**

	2019 RMB'000	2018 RMB'000
(VIII) Transaction with Guangzhou Metro		
Interest expense (note 9)	(133,935)	–
Management service income	4,882	–
(IX) Transaction with 廣州宏軒		
Interest expense (note 9)	(3,098)	–
(X) Transaction with 廣州宏嘉		
Interest expense (note 9)	(6,312)	–
(XI) Transaction with 廣州璟擘		
Interest expense (note 9)	(4,171)	–
(XII) Transaction with GYHL		
Interest expense (note 9)	(20,634)	–
(XIII) Transaction with 深圳安創		
Interest expense (note 9)	(65,639)	(134,059)
(XIV) Transaction with 桐鄉安豪		
Interest expense (note 9)	(9,644)	(1,598)
(XV) Transaction with 深圳聯新		
Interest expense (note 9)	(39,984)	(555)
(XVI) Transaction with 廣州聯衡		
Interest expense (note 9)	(44,747)	(58,390)
(XVII) Transaction with GYFL		
Rental income	9,961	10,136
(XVIII) Transaction with 資產管理		
Rental income	8,197	6,369
(XIX) Transaction with 金鷹		
Rental income	8,594	9,593
(XX) Transaction with GSCL		
Rental income	1,868	1,914

NOTES TO THE FINANCIAL STATEMENTS

45 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)**(b) Transactions with related parties (Continued)**

	2019 RMB'000	2018 RMB'000
(XXI) Transaction with GCCD Sales of investment properties	—	30,441
(XXII) Transaction with 廣州悅錦 Disposal of a subsidiary	355,361	—
(XXIII) Transaction with Guangzhou Jiachuang Disposal of a subsidiary	—	2,697,544
(XXIV) Transaction with 廣州越展 Addition of right-of-use assets	117,808	—
Interest expense on lease liabilities	(1,895)	—
Repayment of lease liabilities	(4,007)	—
(XXV) Transaction with 廣州造紙 Addition of right-of-use assets	52,309	—
Interest expense on lease liabilities	(212)	—
Repayment of lease liabilities	(409)	—

The price of above transactions were determined in accordance with the terms agreed by the relevant contracting parties.

NOTES TO THE FINANCIAL STATEMENTS

45 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)**(c) Balances with related parties**

	Note	2019 RMB'000	2018 RMB'000
Amount due to ultimate holding company	(i), (ii)	(182,512)	–
Amount due to intermediate holding company	(i), (ii)	(1,900,304)	(1,500,000)
Amounts due from associated entities	(iii), (v)	2,914,497	9,880,716
Amounts due to associated entities	(ii), (vii)	(9,594,294)	(1,270,717)
Amounts due from joint ventures	(iv), (vi), (viii)	4,563,486	3,577,445
Amounts due to joint ventures	(i), (ii)	(2,969,800)	(3,318,814)
Amounts due from related companies	(i), (ii)	47,241	38,282
Amounts due to related companies	(i), (ii)	(34,503)	(34,422)
Amounts due to fellow subsidiaries	(i), (ii)	(250,562)	(286,534)
Amounts due to a shareholder	(ix)	(7,538,621)	–
Amounts due from entity with significant influence over the subsidiaries	(i), (ii)	1,593,002	3,232,700
Amounts due to entity with significant influence over the subsidiaries	(ii), (x)	(204,554)	(4,463,084)
Deposits in fellow subsidiaries	(xi)	2,160,191	924,875
Bank borrowing from a fellow subsidiary	(xii)	(40,000)	(83,526)
Lease liabilities to intermediate holding company	(xiii)	(7,374)	–
Lease liabilities to associated entities	(xiii)	(132,823)	–
Lease liabilities to a fellow subsidiary	(xiii)	(172,224)	–

Except for the amount due from an associated entity of approximately RMB54,610,000 (31 December 2018: RMB60,329,000), amounts due from joint ventures of approximately RMB106,298,000 (31 December 2018: RMB105,216,000), amount due to an associated entity of approximately RMB179,622,000 (31 December 2018: RMB168,985,000), amount due to a joint venture of approximately RMB56,735,000 (31 December 2018: RMB55,513,000), lease liabilities to intermediate holding company of approximately RMB7,374,000 (31 December 2018: nil), amount due to intermediate holding company of approximately RMB303,000 (31 December 2018: nil), and bank deposit in a fellow subsidiary of approximately RMB10,286,000 (31 December 2018: nil) which are denominated in HKD, bank deposit in a fellow subsidiary of approximately RMB1,836,000 (31 December 2018: nil) and amount due from an associated entity of approximately RMB627,858,000 (31 December 2018: nil) which are denominated in USD, other related party balances are denominated in RMB.

NOTES TO THE FINANCIAL STATEMENTS

45 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

(c) Balances with related parties (Continued)

Note:

- (i) These balances are unsecured, interest free and repayable or receivable on demand.
- (ii) These balances are included in other receivables, prepayments and deposits or other payables and accrued charges, as appropriate.
- (iii) The balance is included in interests in associated entities except for an amount of approximately RMB793,274,000 (31 December 2018: RMB6,237,335,000) which is included in other receivables, prepayments and deposits.
- (iv) The balance is included in interests in joint ventures except for an amount of RMB103,186,000 (31 December 2018: RMB60,139,000) which is included in other receivables, prepayments and deposits.
- (v) The balances are unsecured, interest free and receivable on demand (31 December 2018: an amount of approximately RMB7,371,000 is unsecured and interest bearing at 4.35% per annum).
- (vi) The balances are not in default or impaired, except for a provision for impairment losses of approximately RMB999,000 (31 December 2018: RMB999,000) which is made for an amount due from a joint venture.
- (vii) Except for an amount of approximately RMB223,617,000 (31 December 2018: RMB238,915,000) which is unsecured and interest bearing at 9% per annum (2018: 9% per annum), and an amount of approximately RMB480,626,000 (31 December 2018: nil) which is unsecured and interest bearing at 4.31% per annum, the remaining balances are unsecured, interest free and repayable on demand.
- (viii) Except for an amount of approximately RMB73,312,000 (31 December 2018: nil) which is unsecured and interest bearing at 8.50% per annum, and an amount of approximately RMB28,013,000 (31 December 2018: RMB103,319,000) which is unsecured and interest bearing at 4.75% per annum (2018: 4.75% per annum), the remaining balances are unsecured, interest free and receivable on demand.
- (ix) The balance of loan from a shareholder, Guangzhou Metro is approximately RMB7,076,856,000 as at 31 December 2019 (31 December 2018: nil), with an interest rate of 6.50% per annum. The balance is included in other payables and accrued charges. An amount of approximately RMB814,946,000 is repayable in 2023 and an amount of approximately RMB307,714,000 is repayable in 2020. The remaining balance is repayable on demand.
- (x) Except for an amount of approximately RMB163,311,000 (31 December 2018: RMB 4,617,413,000), which is unsecured and interest bearing at 5.70% per annum (2018: weighted average rate of 6.51% per annum), the remaining balances are unsecured, interest free and receivable on demand.
- (xi) These balances are deposits maintained with fellow subsidiaries on normal commercial terms.
- (xii) These balances are unsecured and interest bearing at 5.23% per annum (2018: 5.22% per annum).
- (xiii) The Group leases office premises from an intermediate holding company and an associated entities and a fellow subsidiary. The monthly rents payable by the Group during the leasing terms are determined with reference to the prevailing market prices.

NOTES TO THE FINANCIAL STATEMENTS

45 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)**(d) Key management compensation**

The aggregate amounts of emoluments paid or payable to key management of the Group are as follows:

	2019 RMB'000	2018 RMB'000
Fees	1,076	931
Other emoluments:		
Basis salaries, housing allowances, other allowances and benefits in kind	29,096	29,635
Pension costs	165	224
	<u>30,337</u>	<u>30,790</u>

(e) Received guarantees

- (i) GYHL provides corporate guarantee for the bond of Guangzhou City Construction & Development Co. Ltd ("GZCC"), a subsidiary of the Group, amounted to RMB13,966 million as at 31 December 2019 (31 December 2018: RMB9,477 million).
- (ii) GYHL provides corporate guarantee for bank loan of Kangjing Company, a subsidiary of the Group, amounted to RMB2,000 million as at 31 December 2019 (31 December 2018: RMB1,155 million).
- (iii) GYHL provides corporate guarantee for bank loan of Suzhou Shenyi Property Development Co., Ltd, a subsidiary of the Group, amounted to RMB200 million as at 31 December 2019 (31 December 2018: RMB300 million).
- (iv) GCCD provides corporate guarantee for bank loan of Guangzhou City Construction & Development Group Nansha Co. Ltd, a subsidiary of the Group, amounted to RMB90 million as at 31 December 2019 (31 December 2018: RMB136 million).
- (v) GCCD provides corporate guarantee for other loan of Wuhan Kangjing Industrial Investment Co.,Ltd., a subsidiary of the Group, amounted to RMB16 million as at 31 December 2019 (31 December 2018: RMB136 million).

(f) Provision of guarantees

The Group provides guarantee for the borrowing of associated entities and joint ventures, see note 41.

NOTES TO THE FINANCIAL STATEMENTS

46 SUBSEQUENT EVENT

After the outbreak of Coronavirus Disease 2019 ("COVID-19 outbreak") in early 2020, a series of precautionary and control measures have been and continued to be implemented across China. The Group will pay close attention to the development of the COVID-19 outbreak and evaluate its impact on the financial position and operating results of the Group.

47 COMPANY BALANCE SHEET

	2019	2018
	RMB'000	RMB'000
ASSETS		
Non-current assets		
Property, plant and equipment	7,303	5,284
Right-of-use assets	6,889	–
Investment properties	12,639	11,566
Interests in subsidiaries	38,982,531	33,882,116
Interest in associated entities	19,266	19,253
Derivative financial instruments	65,179	9,069
	39,093,807	33,927,288
Current assets		
Other receivables, prepayments and deposits	2,183	2,095
Dividend receivables	6,837,831	4,572,831
Cash and cash equivalents	1,571,408	742,266
	8,411,422	5,317,192
LIABILITIES		
Current liabilities		
Amounts due to subsidiaries	5,021,278	4,293,458
Amounts due to an intermediate holding company	1,900,295	1,499,992
Other payables and accrued charges	233,969	218,377
Borrowings	1,557,590	131,489
Lease liabilities	3,791	–
	8,716,923	6,143,316
Net current liabilities	(305,501)	(826,124)
Total assets less current liabilities	38,788,306	33,101,164

NOTES TO THE FINANCIAL STATEMENTS

47 COMPANY BALANCE SHEET (Continued)

	2019 RMB'000	2018 RMB'000
Non-current liabilities		
Amount due to a subsidiary	19,561,891	17,462,961
Borrowings	133,298	1,972,123
Lease liabilities	3,258	–
	<u>19,698,447</u>	<u>19,435,084</u>
Net assets	<u>19,089,859</u>	<u>13,666,080</u>
EQUITY		
Capital and reserves attributable to equity holders of the Company		
Share capital	18,035,015	12,759,402
Shares held under share award scheme	(81,577)	(55,220)
Reserves (note)	<u>1,136,421</u>	<u>961,898</u>
Total equity	<u>19,089,859</u>	<u>13,666,080</u>

On behalf of the Board

Lin Zhaoyuan
Director

Lin Feng
Director

NOTES TO THE FINANCIAL STATEMENTS

47 COMPANY BALANCE SHEET (Continued)

Note:

Reserves

	Hedging RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2019	(834)	962,732	961,898
Profit for the year	–	1,555,559	1,555,559
Gains on cash flow hedges	31,374	–	31,374
Costs of hedging	7,597	–	7,597
Hedging losses reclassified to profit or loss	12,664	–	12,664
Dividends paid	–	(1,432,671)	(1,432,671)
At 31 December 2019	<u>50,801</u>	<u>1,085,620</u>	<u>1,136,421</u>

	Hedging RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2018	–	1,043,451	1,043,451
Profit for the year	–	925,337	925,337
Losses on cash flow hedges	(834)	–	(834)
Dividends paid	–	(1,006,056)	(1,006,056)
At 31 December 2018	<u>(834)</u>	<u>962,732</u>	<u>961,898</u>

INDEPENDENT AUDITOR'S REPORT



羅兵咸永道

To the Members of Yuexiu Property Company Limited
(incorporated in Hong Kong with limited liability)

OPINION

What we have audited

The consolidated financial statements of Yuexiu Property Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 89 to 190, which comprise:

- the consolidated balance sheet as at 31 December 2018;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

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INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Valuation of investment properties held by the Group and its associated entity
- Net realisable value of properties under development and properties held for sale held by the Group

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>Valuation of investment properties held by the Group and its associated entity</p> <p>Refer to notes 3.3(b), 4(a), 17 and 23 to the consolidated financial statements</p> <p>Management has estimated the fair value of the Group's investment properties to be RMB10,865 million at 31 December 2018, with a revaluation gain for the year ended 31 December 2018 recorded in the consolidated statement of profit or loss of RMB371 million. The fair value of investment properties held by Yuexiu Real Estate Investment Trust, an associated entity, attributable to the Group amounted to RMB10,516 million at 31 December 2018, with a revaluation gain for the year ended 31 December 2018 recorded in the consolidated statement of comprehensive income of RMB327 million.</p> <p>Management has engaged independent external valuers to perform valuation of all the investment properties in order to support management's estimates. The valuations of completed investment properties are dependent on certain key assumptions that require significant management judgement, including market rents and capitalisation rate.</p> <p>Due to the significant judgement and estimates involved, specific audit focus was placed on this area.</p>	<p>Our procedures in relation to management's valuation of investment properties included:</p> <ul style="list-style-type: none"> • Evaluating the independent external valuers' qualifications, expertise, competence, capabilities and objectivity; • Obtaining the valuation reports for all properties and assessing that the valuation approach adopted was suitable for use in determining the fair value for the purpose of the financial statements; • Assessing the methodologies used and the appropriateness of the key assumptions based on our knowledge of the property industry and using our in-house valuation experts; and • Checking, on a sample basis, the input data used by the independent external valuers for the accuracy and relevance of the published external market data. <p>We found that the assumptions and estimates made by the management in relation to the valuation was supported by the available audit evidence.</p>

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter

Net realisable value of properties under development and properties held for sale held by the Group

Refer to notes 4(b), 25 and 26 to the consolidated financial statements

The Group had properties under development and properties held for sale of RMB73,069 million and RMB10,165 million, respectively, as at 31 December 2018. Management assessed the carrying amounts according to the net realisable value of these properties, taking into account the estimated costs to completion and estimated net sales value at prevailing market conditions. Write down to net realisation value is made when events or changes in circumstances indicate that the carrying amounts may not be realisable. The assessment requires management judgement and estimates.

How our audit addressed the Key Audit Matter

Our procedures in relation to management's assessment on net realisable value of properties under development and properties held for sale included:

- Evaluating of management's assessment by comparing, on a sample basis, the estimated selling price less variable selling expenses and the estimated costs to completion used in the assessment with the price and cost data from recent transactions or available market information;
- Discussing with management on the latest status and development plans of the underlying property projects, such as expected completion dates of the projects; and
- Checking management's adjustments to recoverable amounts of the underlying property projects if their carrying amounts are below net realisable value.

We found the net realisable value of properties under development and properties held for sale were supported by the available evidence.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 405 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

INDEPENDENT AUDITOR'S REPORT

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Ip Koon Wing, Ernest.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 27 February 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2018

	Note	2018 RMB'000	2017 RMB'000
Revenue	5	26,433,444	23,793,908
Cost of sales	6	(18,040,522)	(17,685,801)
Gross profit		8,392,922	6,108,107
Proceeds from sales of investment properties		96,428	350,774
Direct costs of investment properties sold		(93,753)	(350,266)
Gain on sales of investment properties	21	2,675	508
Fair value gains/(losses) on revaluation of investment properties, net	17	370,875	(119,326)
Other gains, net	7	1,039,814	670,617
Selling and marketing costs	6	(650,513)	(618,959)
Administrative expenses	6	(1,045,130)	(967,350)
Operating profit		8,110,643	5,073,597
Finance income	8	169,665	276,557
Finance costs	9	(2,002,121)	(1,309,699)
Share of profit of			
– joint ventures	22	58,466	81,715
– associated entities	23	446,749	663,240
Profit before taxation		6,783,402	4,785,410
Taxation	10	(3,743,909)	(2,453,764)
Profit for the year		3,039,493	2,331,646
Attributable to:			
– Equity holders of the Company		2,727,885	2,260,242
– Non-controlling interests		311,608	71,404
		3,039,493	2,331,646
Earnings per share for profit attributable to equity holders of the Company (expressed in RMB per share)			
– Basic and diluted	11	0.2200	0.1823

The notes on pages 98 to 190 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	2018 RMB'000	2017 RMB'000
Profit for the year	3,039,493	2,331,646
Other comprehensive (loss)/income:		
<u>Items that may be reclassified to profit or loss</u>		
Exchange differences on translation of foreign operations	(415,210)	275,753
Change in the fair value of available-for-sale financial assets, net of tax	—	14,449
Losses on cash flow hedges	(834)	—
<u>Items that will not be reclassified to profit or loss</u>		
Changes in the fair value of equity investments at fair value through other comprehensive income, net of tax	15,161	—
Other comprehensive (loss)/income for the year, net of tax	(400,883)	290,202
Total comprehensive income for the year	2,638,610	2,621,848
Attributable to:		
– Equity holders of the Company	2,326,177	2,549,658
– Non-controlling interests	312,433	72,190
	2,638,610	2,621,848

The notes on pages 98 to 190 form an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

As at 31 December 2018

	Note	2018 RMB'000	2017 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	16	1,994,812	1,961,077
Investment properties	17	10,865,470	13,743,710
Land use rights	18	207,569	217,817
Interests in joint ventures	22	6,473,872	5,570,130
Interests in associated entities	23	13,912,313	14,202,652
Available-for-sale financial assets	24	—	1,206,645
Financial assets at fair value through other comprehensive income	24	1,228,635	—
Derivative financial instruments		9,069	—
Deferred tax assets	39	492,137	294,853
		35,183,877	37,196,884
Current assets			
Properties under development	25	73,069,099	45,789,461
Properties held for sale	26	10,164,536	9,322,176
Contract costs	27	334,697	—
Prepayments for land use rights		4,862,699	9,192,236
Inventories		—	3,698
Trade receivables	28	50,916	45,315
Other receivables, prepayments and deposits		16,223,088	9,196,475
Prepaid taxation		1,772,324	1,289,824
Charged bank deposits	30	5,168,750	4,139,112
Cash and cash equivalents	31	21,990,512	16,655,299
		133,636,621	95,633,596
Non-current assets held-for-sale	29	—	312,031
LIABILITIES			
Current liabilities			
Trade and note payables	32	1,407,577	157,875
Advance receipts from customers	33	—	17,633,142
Contract liabilities	33	31,637,956	—
Other payables and accrued charges	34	29,371,429	22,122,179
Borrowings	35	5,786,145	8,461,626
Taxation payable		4,425,962	3,822,029
		72,629,069	52,196,851
Net current assets		61,007,552	43,748,776
Total assets less current liabilities		96,191,429	80,945,660

CONSOLIDATED BALANCE SHEET

As at 31 December 2018

	Note	2018 RMB'000	2017 RMB'000
Non-current liabilities			
Borrowings	35	47,619,960	39,247,462
Deferred tax liabilities	39	5,604,127	4,651,862
Deferred revenue		55,624	57,418
		53,279,711	43,956,742
Net assets			
		42,911,718	36,988,918
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	36	12,759,402	12,759,402
Shares held under share award scheme	37	(55,220)	(21,301)
Other reserves	38	455,671	857,379
Retained earnings	38	20,666,714	18,790,158
		33,826,567	32,385,638
Non-controlling interests		9,085,151	4,603,280
Total equity		42,911,718	36,988,918

On behalf of the Board

Lin Zhaoyuan
Director

Lin Feng
Director

The notes on pages 98 to 190 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	2018 RMB'000	2017 RMB'000
Operating profit	8,110,643	5,073,597
Adjustments for:		
Depreciation and amortisation (note 6)	64,972	43,338
Loss/(gain) on disposal of property, plant and equipment and land use right (note 7)	82	(98,336)
Gain on sales of investment properties (note 21)	(2,675)	(508)
Fair value (gains)/losses on revaluation of investment properties, net (note 17)	(370,875)	119,326
Fair value loss on derivative financial instrument	—	79
Amortisation of deferred revenue	(1,794)	(1,794)
Provision for impairment of properties held for sale (note 6)	85,591	319,496
Gain on disposal of subsidiaries (note 7)	(463,494)	(585,312)
Loss on disposal of non-current assets held-for-sale (note 7)	5,550	12,004
Remeasurement gains on interests in associated entities (note 7)	(553,636)	—
Gain on bargain purchase on acquisition (note 7)	(40,111)	—
Operating cash flows before movements in working capital	6,834,253	4,881,890
Increase in properties under development, properties held for sale and prepayments for land use rights	(1,725,714)	(5,650,165)
Net increase in contract costs	(75,167)	—
Decrease in inventories	3,698	43,610
Decrease/(increase) in trade receivables, other receivables, prepayments and deposits	843,474	(2,402,777)
Increase in trade and note payables, contract liabilities, other payables and accrued charges	10,030,631	2,266,793
Net exchange difference for working capital	(29,472)	55,171
Net cash generated from/(used in) operations	15,881,703	(805,478)
Interest received	161,227	272,327
Interest paid	(2,928,613)	(2,276,518)
Hong Kong profits tax paid	(2,614)	(1,275)
China taxation paid	(2,881,628)	(1,892,103)
Net cash generated from/(used in) operating activities	10,230,075	(4,703,047)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	2018 RMB'000	2017 RMB'000
Investing activities		
Purchases of property, plant and equipment and land use right	(237,437)	(326,685)
Purchases of available-for-sale financial assets (note 24)	—	(55)
Purchases of investment properties (note 17)	(5,266)	(9,613)
Proceeds from sale of investment properties	95,516	351,667
Dividends received from an associated entity (note 23)	278,860	290,550
Payment to joint ventures and associated entities	(260,924)	(2,748,476)
(Increase)/decrease in charged bank deposits	(1,029,638)	191,442
Payment for acquisition of subsidiaries, net of cash acquired (note 19)	(1,934,348)	—
Proceeds from sales of property, plant and equipment and land use right	47,807	242,698
Proceeds from sales of available-for-sale financial assets	—	75
Capital injection in a joint venture	(810,900)	(62,459)
Acquisition of joint ventures	(243,013)	—
Capital injection in associated entities	—	(302,959)
Acquisition of associated entities	(564,872)	—
Proceeds from sale of non-current asset held-for-sale	306,481	429,537
Proceeds from disposal of subsidiaries, net of cash disposed (note 20)	502,204	1,936,656
Decrease in amounts due from associated entities and joint ventures	19,277	577,728
(Increase)/decrease in amounts due from related parties of non-controlling interests and non-controlling interests	298,296	447,512
Net cash (used in)/generated from investing activities	(3,537,957)	1,017,618

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	2018 RMB'000	2017 RMB'000
Financing activities		
Capital contribution from non-controlling interests	1,287,517	770,160
Dividends paid to equity holders of the Company (note 12)	(1,006,056)	(766,705)
Dividends paid to non-controlling interests	—	(961)
Increase/(decrease) in amounts due to an intermediate holding company	1,499,992	(3)
Increase/(decrease) in amounts due to joint ventures and associated entities	2,345,022	(2,695,251)
Decrease in amounts due to related companies	(6,146)	(36)
Decrease in amounts due to fellow subsidiaries	(108,239)	(3,549,890)
Increase in amounts due to related parties of non-controlling interests and non-controlling interests	768,573	1,135,943
Proceeds from bank borrowings	12,562,603	17,811,484
Repayment of bank borrowings	(21,994,369)	(13,176,563)
Proceeds from other borrowings	23,996,979	4,817,117
Repayment of other borrowings	(20,743,754)	(1,634,716)
Net cash (used in)/generated from financing activities	(1,397,878)	2,710,579
Increase/(decrease) in cash and cash equivalents	5,294,240	(974,850)
Cash and cash equivalents at the beginning of year	16,655,248	17,691,375
Exchange gain/(loss) on cash and cash equivalents	40,967	(61,277)
Cash and cash equivalents at the end of year	21,990,455	16,655,248
Analysis of balances of cash and cash equivalents		
Bank balances and cash (note 31)	21,990,512	16,655,299
Bank overdrafts (note 35)	(57)	(51)
	21,990,455	16,655,248

The notes on pages 98 to 190 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Attributable to equity holders of the Company				
	Share capital RMB'000	Shares held under share award scheme RMB'000	Reserves RMB'000	Non- controlling interests RMB'000	Total RMB'000
Balance at 31 December 2017 as originally presented	12,759,402	(21,301)	19,647,537	4,603,280	36,988,918
Change in accounting policy (note 2.2)	—	—	154,727	39,921	194,648
Restated balance at 1 January 2018	12,759,402	(21,301)	19,802,264	4,643,201	37,183,566
Comprehensive income					
Profit for the year	—	—	2,727,885	311,608	3,039,493
Other comprehensive income					
Currency translation differences	—	—	(415,210)	—	(415,210)
Change in the fair value of equity investments at fair value through other comprehensive income, net of tax	—	—	14,336	825	15,161
Losses on cash flow hedges	—	—	(834)	—	(834)
Total other comprehensive income	—	—	(401,708)	825	(400,883)
Total comprehensive income	—	—	2,326,177	312,433	2,638,610
Transactions with owners					
Dividends paid	—	—	(1,006,056)	—	(1,006,056)
Capital injection to subsidiaries	—	—	—	1,287,517	1,287,517
Non-controlling interests arising on business combination (note 19(a))	—	—	—	2,842,000	2,842,000
Acquisition of shares under share award scheme (note 37)	—	(33,919)	—	—	(33,919)
Total transactions with owners	—	(33,919)	(1,006,056)	4,129,517	3,089,542
At 31 December 2018	12,759,402	(55,220)	21,122,385	9,085,151	42,911,718

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Attributable to equity holders of the Company			Non- controlling interests RMB'000	Total RMB'000
	Share Capital RMB'000	Shares held under share award scheme RMB'000	Reserves RMB'000		
Balance at 1 January 2017	12,759,402	—	17,864,584	3,761,891	34,385,877
Comprehensive income					
Profit for the year	—	—	2,260,242	71,404	2,331,646
Other comprehensive income					
Currency translation differences	—	—	275,753	—	275,753
Change in fair value of available-for-sale financial assets, net of tax	—	—	13,663	786	14,449
Total other comprehensive income	—	—	289,416	786	290,202
Total comprehensive income	—	—	2,549,658	72,190	2,621,848
Transactions with owners					
Dividends paid	—	—	(766,705)	(961)	(767,666)
Capital injection to subsidiaries	—	—	—	770,160	770,160
Acquisition of shares under share award scheme (note 37)	—	(21,301)	—	—	(21,301)
Total transactions with owners	—	(21,301)	(766,705)	769,199	(18,807)
At 31 December 2017	12,759,402	(21,301)	19,647,537	4,603,280	36,988,918

The notes on pages 98 to 190 form an integral part of these consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 GENERAL INFORMATION

Yuexiu Property Company Limited (the “Company”) and its subsidiaries (together, the “Group”) is principally engaged in development, selling and management of properties and holding of investment properties. The Group’s operations are primarily conducted in Mainland China (“China”) and Hong Kong.

The Company is a limited liability company incorporated in Hong Kong. The address of its registered office is 26th Floor, Yue Xiu Building, 160 Lockhart Road, Wanchai, Hong Kong.

The Company’s shares are listed on The Stock Exchange of Hong Kong Limited (“Stock Exchange”).

These financial statements are presented in Renminbi (“RMB”), unless otherwise stated. These financial statements have been approved for issue by the Board of Directors on 27 February 2019.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The consolidated financial statements are for the Company and its subsidiaries.

2.1 Basis of preparation

(i) *Compliance with HKFRS and HKCO*

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs) and requirements of the Hong Kong Companies Ordinance Cap. 622.

These consolidated financial statements comply with the applicable requirements of Hong Kong Companies Ordinance (Cap. 622), with the exception of Section 381 which requires a company to include all its subsidiary undertakings (within the meaning of Schedule 1 to Cap. 622) in the company’s annual consolidated financial statements. Section 381 is inconsistent with the requirements of HKFRS 10 Consolidated Financial Statements so far as Section 381 applies to subsidiary undertakings which are not controlled by the Group in accordance with HKFRS 10. For this reason, under the provisions of Section 380(6), the Company has departed from Section 381 and has not treated such companies as subsidiaries but they are accounted for in accordance with the accounting policies in note 2.3.

(ii) *Historical cost convention*

The consolidated financial statements have been prepared on a historical cost basis, except for the following:

- certain financial assets, financial assets and liabilities (including derivative instruments) and investment property – measured at fair value, and
- financial assets at fair value through other comprehensive income (“FVOCI”) or at fair value through profit or loss (“FVPL”) – measured at fair value less cost to sell.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**2.1 Basis of preparation (Continued)**

(iii) *The Group has applied following new standards, amendments to existing standards and interpretation for the first time for their annual reporting period commencing 1 January 2018:*

HKAS 28 (Amendment)	Investments in Associates and Joint Ventures
HKAS 40 (Amendments)	Transfers of Investment Property
HKFRS 1 (Amendment)	First Time Adoption of HKFRS
HKFRS 2 (Amendments)	Classification and Measurement of Share-based Payment Transactions
HKFRS 4 (Amendments)	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
HK (IFRIC) 22	Foreign Currency Transactions and Advance Consideration

The Group has assessed the impact of the adoption of these new and amended standards that are effective for the first time for this year. The Group had to change its accounting policies and make modified retrospective adjustments as a result of adopting the following standards:

- HKFRS 9 Financial Instruments, and
- HKFRS 15 Revenue from Contracts with Customers

The impact of the adoption of these standards and the new accounting policies are disclosed in note 2.2. The other standards, amendments and interpretation did not have any impact on the Group's accounting policies and did not require retrospective adjustments.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**2.1 Basis of preparation (Continued)**

(iv) *New standards, amendments to existing standards and interpretations that have been issued but are not effective and have not been early adopted by the Group:*

		Effective for accounting periods beginning on or after
HKAS 1 and HKAS 8 (Amendments)	Definition of Material	1 January 2020
HKAS 19 (Amendments)	Employee Benefits	1 January 2019
HKAS 28 (Amendments)	Long-term Interests in an Associate or Joint Ventures	1 January 2019
HKFRS 3 (Amendments)	Definition of a Business	1 January 2020
HKFRS 9 (Amendments)	Prepayment Features with Negative Compensation	1 January 2019
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined
HKFRS 16	Leases	1 January 2019
HKFRS 17	Insurance Contracts	1 January 2021
Annual Improvements to 2015-2017 Cycle	Improvements to HKFRSs	1 January 2019
HK (IFRIC) 23	Uncertainty over Income Tax Treatments	1 January 2019

The above new standards, amendments to existing standards and interpretations are effective for annual periods beginning on or after 1 January 2019 and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the one set out below:

HKFRS 16 Leases**Nature of change**

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the consolidated balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**2.1 Basis of preparation (Continued)**

- (iv) *New standards, amendments to existing standards and interpretations that have been issued but are not effective and have not been early adopted by the Group: (Continued)*

HKFRS 16 Leases (Continued)**Impact**

As at 31 December 2018, the Group has non-cancellable operating lease commitments of RMB72,516,000, see note 40. The Group has reviewed all of the Group's leasing arrangements over the last year in light of the new lease accounting rules in HKFRS 16. The standard will affect primarily the accounting for the Group's operating leases.

The Group expects to increase in the amount of recognised financial liabilities and right-of-use assets for almost all lease contracts. Operating cash flows will increase and financing cash flows decrease as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities.

The Group does not expect any significant impact on the financial statements for the Group's activities as a lessor. However, some additional disclosures will be required from next year.

Date of adoption by Group

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

2.2 Changes in accounting policies

This note explains the impact of the adoption of HKFRS 9 Financial Instruments and HKFRS 15 Revenue from Contracts with Customers on the consolidated financial statements of the Group.

- (i) *Impact on the financial statements*

The Group applied the modified retrospective approach to adopt HKFRS 9 and HKFRS 15 without restating comparative information. The reclassifications and the adjustments arising from the new accounting policies are therefore not reflected in the balance sheet as at 31 December 2017, but are recognised in the opening balance sheet on 1 January 2018.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Changes in accounting policies (Continued)

(i) Impact on the financial statements (Continued)

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail by standard below.

	31 December 2017 RMB'000	HKFRS 9 RMB'000	HKFRS 15 RMB'000	1 January 2018 Restated RMB'000
Consolidated Balance sheet (extract)				
Non-current assets				
FVOCI	—	1,206,645	—	1,206,645
Available-for-sale ("AFS") financial assets	1,206,645	(1,206,645)	—	—
Current assets				
Contract costs	—	—	259,530	259,530
Total assets	133,142,511	—	259,530	133,402,041
Non-current liabilities				
Deferred tax liabilities	4,651,862	—	64,882	4,716,744
Current liabilities				
Contract liabilities	—	—	17,633,142	17,633,142
Advance receipts from customers	17,633,142	—	(17,633,142)	—
Total liabilities	96,153,593	—	64,882	96,218,475
Net assets	36,988,918	—	194,648	37,183,566
Retained earnings	18,790,158	—	154,727	18,944,885
Non-controlling interest	4,603,280	—	39,921	4,643,201
Total equity	36,988,918	—	194,648	37,183,566

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Changes in accounting policies (Continued)

(ii) HKFRS 9 Financial Instruments

(a) Classification and measurement

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets.

The adoption of HKFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out in note 2.11.

On 1 January 2018 (the date of initial application of HKFRS 9), the Group's management has classified its financial instruments into the appropriate HKFRS 9 categories.

The impact of these changes on the Group's equity is as follows:

	Effect on AFS reserve RMB'000	Effect on FVOCI reserve RMB'000
Opening balance – HKAS 39	731,529	–
Reclassify non-trading equity investments from AFS to financial assets at FVOCI (note)	(731,529)	731,529
Total impact	(731,529)	731,529
Opening balance – HKFRS 9	–	731,529

Note:

The Group elected to present in other comprehensive income changes in the fair value of all its equity investments previously classified as AFS. As a result, assets with a fair value of RMB1,206,645,000 were reclassified from available-for-sale financial assets to financial assets at FVOCI and fair value gains of RMB731,529,000 were reclassified from the AFS reserve to the FVOCI reserve on 1 January 2018.

(b) Impairment of financial assets

While cash and cash equivalent, charged bank deposit, trade receivables, other receivables and deposits are subject to the impairment requirements of HKFRS 9, the identifiable impairment loss was immaterial. For details, please refer to note 3.1(b).

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Changes in accounting policies (Continued)

(iii) HKFRS 15 Revenue from Contracts with Customers

The Group has adopted HKFRS 15 Revenue from Contracts with Customers from 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements at 1 January 2018. In accordance with the transition provisions in HKFRS 15, the Group has adopted the new rules modified retrospectively and therefore has not restated comparatives for the 2017 financial year. In summary, the following adjustments were made to the amounts recognised in the opening balance sheet on 1 January 2018:

	HKAS 18 carrying amount 31 December 2017 RMB'000	Reclassification RMB'000	Remeasurement RMB'000	HKFRS 15 carrying amount 1 January 2018 RMB'000
Contract costs	—	—	259,530	259,530
Contract liabilities	—	17,633,142	—	17,633,142
Advance receipts from customers	17,633,142	(17,633,142)	—	—
Deferred tax liabilities	4,651,862	—	64,882	4,716,744

The impact on the Group's retained earnings and non-controlling interests ("NCI") as at 1 January 2018 is as follows:

	RMB'000
Retained earnings and NCI as at 31 December 2017	
Retained earnings	18,790,158
Non-controlling interests	4,603,280
Recognition of assets for costs to obtain contracts	259,530
Increase in deferred tax liabilities	(64,882)
Adjustment to retained earnings from adoption of HKFRS 15	154,727
Adjustment to non-controlling interest from adoption of HKFRS 15	39,921
Retained earnings and NCI as at 1 January 2018	
Retained earnings	18,944,885
Non-controlling interests	4,643,201

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Changes in accounting policies (Continued)

(iii) HKFRS 15 Revenue from Contracts with Customers (Continued)

The amount by each financial statements line items affected in 2018 and at 31 December 2018 by the application of HKFRS 15 as compared to HKAS 18 and HKAS 11 that were previously in effect before the adoption of HKFRS 15 is as follows:

	As at 31 December 2018		
	Amounts	Effects of the	Amounts
	without the	adoption of	as reported
	adoption of	adoption of	as reported
	HKFRS 15	HKFRS 15	as reported
	RMB'000	RMB'000	RMB'000
Consolidated balance sheet (extract)			
Contract costs	—	334,697	334,697
Deferred tax liabilities	5,520,453	83,674	5,604,127
Contract liabilities	—	31,637,956	31,637,956
Advance receipts from customers	31,637,956	(31,637,956)	—
Retained earnings	20,450,642	216,072	20,666,714
Non-controlling interests	9,050,200	34,951	9,085,151

	Year ended 31 December 2018		
	Amounts	Effects of the	Amounts
	without the	adoption of	as reported
	adoption of	adoption of	as reported
	HKFRS 15	HKFRS 15	as reported
	RMB'000	RMB'000	RMB'000
Consolidated statement of profit or loss (extract)			
Selling and marketing cost	(725,680)	75,167	(650,513)
Taxation	(3,725,117)	(18,792)	(3,743,909)
Profit for the period	2,983,118	56,375	3,039,493
Attributable to			
Equity holders of the company	2,666,540	61,345	2,727,885
Non-controlling interests	316,578	(4,970)	311,608

(a) Accounting for costs to obtain a contract

Refer to note 27 for the accounting policies for costs to obtain a contract.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Changes in accounting policies (Continued)

(iii) HKFRS 15 Revenue from Contracts with Customers (Continued)

(b) Presentation of assets and liabilities related to contracts with customers

The Group has also changed the presentation of the following amounts in the balance sheet to reflect the terminology of HKFRS 15:

- Contract liabilities in relation to property sales contracts were previously included in advance receipts from client (RMB17,633,142,000 as at 1 January 2018).

2.3 Principles of consolidation and equity accounting

(i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (refer to note 2.4).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

(ii) Associated entities

Associated entities are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associated entities are accounted for using the equity method of accounting (see (iv) below), after initially being recognised at cost.

(iii) Joint arrangements

Under HKFRS 11 *Joint Arrangements* investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Interests in joint ventures are accounted for using the equity method (see (iv) below), after initially being recognised at cost in the consolidated balance sheet.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**2.3 Principles of consolidation and equity accounting (Continued)***(iv) Equity method*

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associated entities and joint ventures are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in note 2.10.

(v) Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of the Group.

When the Group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associated entity, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs.

If the ownership interest in a joint venture or an associated entity is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred,
- liabilities incurred to the former owners of the acquired business,
- equity interests issued by the Group,
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**2.5 Separate financial statements**

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.6 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker.

The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors that makes strategic decisions.

2.7 Foreign currency translation*(i) Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in RMB, which is the Company's functional and the Group's presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of profit or loss within financial income or finance costs. All other foreign exchange gains and losses are presented in the statement of profit or loss within 'finance costs'.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at FVPL are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as FVOCI are recognised in other comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**2.7 Foreign currency translation (Continued)***(iii) Group companies*

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each statement of profit or loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting currency translation differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(iv) Disposal of foreign operation and partial disposal

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint ventures that includes a foreign operation, or a disposal involving loss of significant influence over an associated entity that includes a foreign operation), all of the currency translation differences accumulated in equity in respect of that operation attributable to the equity holders of the Company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated currency translation differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associated entities or joint ventures that do not result in the Group losing significant influence or joint control) the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**2.8 Property, plant and equipment**

Property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

Land	50 years
Buildings	25-40 years
Leasehold improvements, furniture, fixtures and office equipment	3-5 years
Motor vehicles	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2.10).

Gains and losses on disposals are determined by comparing the proceeds with carrying amount. They are included in profit or loss.

Construction in progress is stated at cost less accumulated impairment losses. Cost includes all attributable costs of bringing the asset to working condition for its intended use. This includes direct costs of construction as well as interest expense capitalised during the period of construction and installation. Capitalisation of these costs will cease and the construction in progress is transferred to appropriate categories within property, plant and equipment when the construction activities necessary to prepare the assets for their intended use are completed. No depreciation is provided in respect of construction in progress.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Investment properties

Investment properties, principally comprising leasehold land and buildings, are held for long-term rental yields, and are not occupied by the Group. Investment property is initially measured at cost, including related transaction costs and where applicable borrowing costs.

After initial recognition, investment properties are carried at fair value, representing open market value determined at each reporting date by external valuers. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections.

Changes in fair values are recognised in the consolidated statement of profit or loss. Investment properties are derecognised either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes.

If an item of owner-occupied property becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is treated in the same way as a revaluation under HKAS 16. Any resulting increase in the carrying amount of the property is recognised in the consolidated statement of profit or loss to the extent that it reverses a previous impairment loss, with any remaining increase recognised in other comprehensive income and increases directly to revaluation surplus within equity. Any resulting decrease in the carrying amount of the property is initially charged in other comprehensive income against any previously recognised revaluation surplus, with any remaining decrease charged to profit or loss.

Where an investment property undergoes a change in use, evidenced by commencement of development with a view to sale, the property is transferred to inventories. A property's deemed cost for subsequent accounting as inventories is its fair value at the date of change in use.

For a transfer from properties under development or property held for sale to investment properties that will be carried at fair value, any difference between the fair value of the property at that date and its previous carrying amount shall be recognised in profit or loss. Transfers to investment property shall be made when, and only when, there is a change in use, evidenced by commencement of an operating lease to another party. The inception of an operating lease is generally an evidence of a change in use. A change in use has occurred is based on an assessment of all relevant facts and circumstances. The relevant facts include but not limited to the Group's business plan, financial resources and legal requirements.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**2.10 Impairment of non-financial assets**

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets that are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows which are largely independent of the cash flows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.11 Investments and other financial assets*(i) Classification*

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at FVOCI.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on the trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(iii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Investments and other financial assets (Continued)

(iii) Measurement (Continued)

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the consolidated statement of profit or loss as applicable.

(iv) Impairment

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its other receivables and deposits carried at amortised cost and adopt three-stages approach to assess the impairment. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

(v) Accounting policies applied until 31 December 2017

(i) Classification

The Group classifies its financial assets in the following categories:

- financial assets at FVPL,
- loans and receivables, and
- available-for-sale financial assets.

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at FVPL

The Group classifies financial assets at FVPL if they are acquired principally for the purpose of selling in the short term, ie. are held for trading. They are presented as current assets if they are expected to be sold within 12 months after the end of the reporting period; otherwise they are presented as non-current assets.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**2.11 Investments and other financial assets (Continued)**

(v) *Accounting policies applied until 31 December 2017 (Continued)*

(i) Classification (Continued)

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. If collection of the amounts is expected in one year or less they are classified as current assets. If not, they are presented as non-current assets. The Group's loans and receivables comprise of trade and other receivables, charged bank deposits and cash and cash equivalents (note 30, 31 and 32).

(c) Available-for-sale financial assets

Investments are designated as available-for-sale financial assets if they do not have fixed maturities and fixed or determinable payments, and management intends to hold them for the medium to long-term. Financial assets that are not classified into any of the other categories (at financial assets at FVPL, loans and receivables) are also included in the available-for-sale category.

The financial assets are presented as non-current assets unless they mature or management intends to dispose of them within 12 months of the end of the reporting period.

(ii) Reclassification

The Group may choose to reclassify a non-derivative trading financial asset out of the held for trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, the Group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held for trading or available-for-sale categories if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Investments and other financial assets (Continued)

(v) Accounting policies applied until 31 December 2017 (Continued)

(iii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on the trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss as gains and losses from investment securities.

(iv) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Available-for-sale financial assets and financial assets at FVPL are subsequently carried at fair value. Gains or losses arising from changes in the fair value are recognised as follows:

- for 'financial assets at FVPL' – in profit or loss within other income or other expenses
- for available-for-sale financial assets that are monetary securities denominated in a foreign currency – translation differences related to changes in the amortised cost of the security are recognised in profit or loss and other changes in the carrying amount are recognised in other comprehensive income
- for other monetary and non-monetary securities classified as available-for-sale – in other comprehensive income.

Dividends on financial assets at FVPL and available-for-sale equity instruments are recognised in profit or loss as part of revenue from continuing operations when the Group's right to receive payments is established.

Interest income from financial assets at FVPL is included in the consolidated statement of profit or loss. Interest on available-for-sale securities and loans and receivables calculated using the effective interest method is recognised in the statement of profit or loss as part of revenue from continuing operations.

Details on how the fair value of financial instruments is determined are disclosed in note 3.3 (a).

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**2.11 Investments and other financial assets (Continued)**

(v) *Accounting policies applied until 31 December 2017 (Continued)*

(v) Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

(a) Assets carried at amortised cost

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

(b) Available-for-sale financial assets

If there is objective evidence of impairment for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss.

Impairment losses on equity instruments that were recognised in profit or loss are not reversed through profit or loss in a subsequent period.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet where the Group has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

2.13 Financial guarantees contracts

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of

- the amount determined in accordance with the expected credit loss model under HKFRS 9 Financial Instruments and
- the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the principles of HKFRS 15 Revenue from Contracts with Customers.

The fair value of financial guarantees is determined based on the present value of the difference in cash flows between the contractual payments required under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Where guarantees in relation to loans or other payables of associates are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment.

2.14 Derivatives and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as cash flow hedges, which are hedges of the cash flows of recognised financial assets or financial liabilities.

At the inception of the hedging, the Group documents the economic, relationship between hedging instruments and hedged items, including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedged items. The Group documents its risk management objective and strategy for undertaking its hedge transactions.

The fair values of derivative financial instruments designated in hedge relationships are disclosed in note 9. Movements in the hedging reserve in shareholders' equity are shown in note 38. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss and are included in "finance costs".

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.15 Trade receivable

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See note 2.11 (iv) for a description of the Group's impairment policies.

2.16 Properties under development and properties held for sale

Properties under development and held for sale are stated at the lower of cost and net realisable value. Development cost of properties comprises cost of land use rights, construction costs and borrowing costs incurred during the construction period. Upon completion, the properties are transferred to completed properties held for sale.

Net realisable value takes into account the price ultimately expected to be realised, less applicable variable selling expenses and the anticipated costs to completion.

Properties under development and held for sale are classified as current assets unless the construction period of the relevant property development projects is expected to complete beyond normal operating cycle.

2.17 Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

2.18 Non-current assets held-for-sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment properties that are carried at fair value and contractual rights under insurance contracts, which are specially exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset, but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset is recognised at the date of derecognition.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.18 Non-current assets held-for-sale(Continued)

Non-current assets are not depreciated or amortised while they are classified as held for sale.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet.

2.19 Trade and note payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.20 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the consolidated statement of profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.21 Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

Other borrowing costs are recognised in profit or loss in the period in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**2.22 Share capital and shares held under share award scheme**

Ordinary shares are classified as equity (note 36).

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where the company's shares are acquired from the market by the Group Employee Share Trust under the share award scheme, the total consideration of shares acquired from the market (including any directly attributable incremental costs) is presented as shares held under share award scheme and deducted from total equity.

Upon grant date, the total consideration related cost of the shares purchased from the market are credited to shares held under share award scheme.

2.23 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

(i) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company and its subsidiaries, associated entities and joint ventures operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the the end of reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred tax liability is settled.

The deferred tax liability in relation to investment property that is measured at fair value is determined assuming the property will be recovered entirely through sale.

Deferred tax assets are recognised only if it is probable that future taxable profit will be available to utilise those temporary differences and losses.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.23 Current and deferred income tax (Continued)

(ii) *Deferred income tax (Continued)*

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to income taxes levied by the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(iii) *Investment allowances and similar tax incentives*

Companies within the Group may be entitled to claim special tax deductions for investments in qualifying assets or in relation to qualifying expenditure. The Group accounts for such allowances as tax credits, which means that the allowance reduces income tax payable and current tax expense. A deferred tax asset is recognised for unclaimed tax credits that are carried forward as deferred tax assets.

2.24 Employee benefits

(i) *Short-term obligations*

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the balance sheet.

(ii) *Other long-term employee benefit obligations*

The liabilities for long service leave and annual leave that are not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service. These obligations are therefore measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period of high-quality corporate bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows. Remeasurements as a result of experience adjustments and changes in actuarial assumptions are recognised in profit or loss.

The obligations are presented as current liabilities in the balance sheet if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting period, regardless of when the actual settlement is expected to occur.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**2.24 Employee benefits (Continued)***(iii) Pension obligations*

The Group participates in various defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan.

The Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(iv) Profit-sharing and bonus plans

The Group recognises a liability and an expense for bonuses and profit-sharing based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(v) Share-based compensation

Share-based compensation benefits are provided to employee via the share award scheme. Information relating to these schemes is set out in note 37.

(vi) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of HKAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.25 Provisions

Provisions for legal claims, service warranties and make good obligations are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to passage of time is recognised as interest expense.

2.26 Revenue recognition

(i) Revenue is measured at the fair value of the consideration received or receivable for the sales of properties in the PRC and provision of services in the ordinary course of the Group's activities. Revenue is shown, net of discounts and after eliminating sales with the Group companies.

(a) Sales of properties

Under HKFRS 15, revenue are recognised when or as the control of the asset is transferred to the customer. Depending on the terms of the contract and laws that apply to the contract, control of the asset may transfer over time or at a point in time. Control of the asset is transferred over time if the Group's performance:

- Provides all the benefits received and consumed simultaneously by the customer; or
- Creates and enhances an asset that the customer controls as the Group performs; or
- Do not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the asset transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the asset.

In determine the transaction price, the Group adjusts the promised amount of consideration for the effect of a financing component if it is significant.

The Group has assessed that there is no enforceable right to payment from the customers for performance completed to date. Revenue is recognised at a point in time when the purchaser obtains the physical possession or the legal title of the completed property and the Group has present right to payment and the collection of the consideration is probable.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**2.26 Revenue recognition (Continued)**

- (i) (Continued)
 - (b) Property lease income
Operating lease rental income is recognised on a straight-line basis over the lease period.
 - (c) Property management income
Revenue from rendering of property management services are recognised in the accounting period in which the related services are rendered and there is rights to invoice.
 - (d) Agency service revenue
Agency fee revenue from property brokering is recognised when the relevant agreement becomes unconditional or irrevocable and no further performance obligations.
 - (e) Decoration services
The Group provide decoration services related to interior renovation to customers. The Group's performance creates or enhances an asset or work in progress that the customer controls as the asset is created or enhanced, thus the Group satisfies a performance obligation and recognises revenue over time, by reference to completion of the specific transaction assessed on the basis of the actual costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract.
- (ii) Accounting policies applied until 31 December 2017
Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns rebates and discounts and after eliminating sales with the Group.
The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.
 - (a) Revenue from sales of properties is recognised upon completion of sale agreements, which refers to the time when the relevant properties have been completed and delivered to the purchasers pursuant to the sale agreements. Deposits and instalments received on properties sold prior to their completion are included in current liabilities.
 - (b) Operating lease rental income is recognised on a straight-line basis over the lease period.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.26 Revenue recognition (Continued)

- (ii) Accounting policies applied until 31 December 2017 (Continued)
 - (c) Revenue from property management is recognised in the period in which the services are rendered.
 - (d) Revenue from the sales of goods is recognised upon the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.
 - (e) Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables are recognised using the original effective interest rate.
 - (f) Dividend income is recognised when the right to receive payment is established.
 - (g) Agency fee revenue from property brokering is recognised when the relevant agreement becomes unconditional or irrevocable and no further performance obligations.
 - (h) When the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, as measured by the proportion that contract costs incurred for work performed to date relative to the estimated total contract cost.

2.27 Dividend income

Dividends are recognised as other income in profit or loss when the right to receive payment is established.

2.28 Leases

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (note 40). Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term (note 40). The respective leased assets are included in the balance sheet based on their nature.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.29 Government grants

Grants from government are recognised at their fair value when there is reasonable assurance that the grant will be received and that the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

2.30 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

2.31 Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

2.32 Contract costs and contract liabilities

Contract costs arising from costs to obtain or fulfil a contract that are recognised in accordance with HKFRS 15. Contract costs for the Group are primarily sales commission for the property sales. The Group recognises above incremental costs of obtaining a contract with a customer within contract assets if the Group expects to recover these costs and amortises when the related revenue are recognised.

If a customer pays consideration before the Group transfers a good or service to the customer, the Group presents the contract as a contract liability when the payment is made. A contract liability is the Group's obligation to transfer goods or services to a customer for which the Group has received consideration from the customer.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk and price risk), credit risk, and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

NOTES TO THE FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT (Continued)**3.1 Financial risk factors (Continued)***(a) Market risk**(i) Foreign exchange risk*

A majority of the subsidiaries of the Group operate in China with most of their transactions denominated in RMB. The Group is exposed to foreign exchange risk arising from the exposure of RMB against Hong Kong dollars ("HKD") and United States dollars ("USD"); for certain cash and bank balances of approximately RMB570 million (2017: RMB1,143 million) and bank borrowings of approximately RMB7,145 million (2017: RMB7,801 million) which were denominated in HKD and cash and bank balances of approximately RMB343 million (2017: RMB194 million) and bank borrowings of approximately RMB11,604 million (2017: RMB3,248 million) which were dominated in USD as at 31 December 2018. The Group has entered into several forward exchange contracts to limit its exposure to foreign exchange risk during the year ended 31 December 2018.

At 31 December 2018, if RMB had strengthened/weakened by 5 percent against HKD and USD with all other variables held constant (assuming no capitalisation of exchange difference), post-tax profit for the year would have been approximately RMB745 million higher/lower (2017: post-tax profit RMB405 million higher/lower), mainly as a result of foreign exchange gains on translation of monetary assets and liabilities denominated in HKD and USD.

(ii) Cash flow and fair value interest rate risk

The Group's exposure to changes in interest rates is mainly attributable to its borrowings at fixed rate expose the Group to fair value interest rate risk. Borrowings at variable rates expose the Group to cash flow interest rate risk. The Group closely monitors trend of interest rate and its impact on the Group's interest rate risk exposure. As at 31 December 2018, fixed interest rate borrowings accounted for approximately 57% (31 December 2017: 59%) of the total borrowings.

At 31 December 2018, if interest rates on borrowings had been 100 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been approximately RMB78 million lower/higher (2017: post-tax profit RMB88 million lower/higher) respectively, mainly as a result of higher/lower interest expense on floating rate borrowings.

(iii) Price risk

The Group is exposed to equity securities price risk in its financial assets at FVOCI (2017: in available-for-sale financial assets). The Group is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group.

The financial assets at FVOCI (2017: available-for-sale financial assets) are mainly unlisted equity instruments in China and if the fair value of these equity investments increased or decreased by 10 percent, the Group's equity would have been increased or decreased by approximately RMB79 million (2017: RMB79 million).

NOTES TO THE FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT (Continued)**3.1 Financial risk factors (Continued)***(b) Credit risk*

The Group is exposed to credit risk in relation to its cash and cash equivalents, charged bank deposits and trade and other receivables, including amounts due from related parties.

The carrying amounts of trade and other receivables, cash and cash equivalents and charged bank deposits represent the Group's maximum exposure to credit risk in relation to financial assets.

To manage this risk, with respect to cash at banks and charged bank deposits are placed with highly reputable financial institutions. The Group has policies in place to ensure that sales are made to purchasers with an appropriate financial strength and appropriate percentage of down payments. The Group has arranged bank financing for certain purchasers of the Group's property units and provided guarantees to secure obligations of such purchasers for repayments. If a purchaser defaults on the payments of its mortgage loan during the guarantee period, the bank holding the guarantee may demand the Group to repay the outstanding principal of the loan and any interest to recover any amounts paid by the Group to the bank. In this regard, the directors consider that the Group's credit risk is significantly reduced. The Group also provides certain financial guarantee to associates and joint ventures. As the associates and joint ventures have strong capacity to meet their contractual cash flow obligations, the Group has assessed that the expected credit loss is immaterial. Detailed disclosure of these guarantees is made in note 42.

The Group applies the HKFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. Future cash flows for each group of receivables are estimated on the basis of historical default rates, adjusted to reflect the effects of existing market conditions as well as forward looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

Trade receivables with known insolvencies are assessed individually for impairment allowances and are written off when there is no reasonable expectation of recovery. Indicators of insolvencies include, amongst others, the failure of a debtor engage in a repayment plan with the Group, and a failure to make contractual payments. As at 31 December 2018, certain customers who did not share the same credit risk characteristics as the rest of debtors were in delinquency of payments and their respective trade receivable balances amounting to approximately RMB8,805,000 were therefore fully impaired.

Trade receivables without know insolvencies are assessed on a collective basis based on shared credit risk characteristics. Based on the Group's assessment, expected credit loss rate of these trade receivables is close to zero. Therefore, the loss allowance provision for these trade receivable balances was not material and no provision was recognised.

For other receivables, management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement record and past experience. The directors believe that there is no material credit risk inherent in the Group's outstanding balance of other receivables.

NOTES TO THE FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT (Continued)**3.1 Financial risk factors (Continued)***(b) Credit risk (Continued)*

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on ongoing basis throughout the year. To assess whether there is a significant increase in credit risk the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- internal credit rating
- external credit rating
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations.
- actual or expected significant changes in the operating results of individual property owner or the borrower
- significant increases in credit risk on other financial instruments of the individual property owner or the same borrower
- significant changes in the expected performance and behavior of the borrower, including changes in the payment status of borrowers in the Group and changes in the operating results of the borrower.

The Group uses four categories for those receivables which reflect their credit risk and how the loss provision is determined for each of those categories. These internal credit risk ratings are aligned to external credit ratings.

NOTES TO THE FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

A summary of the assumptions underpinning the Group's expected credit loss model is as follows:

Category	Group definition of category	Basis for recognition of expected credit loss provision
Performing	Customers have a low risk of default and a strong capacity to meet contractual cash flows	12 months expected loss. Where the expected lifetime of an asset is less than 12 months, expected losses are measure at its expected lifetime
Underperforming	Receivables for which there is a significant increase in credit risk; as significant increase in credit risk is presumed if interest and/or principal repayments are more than 90 days past due	Lifetime expected losses
Non-performing	Interest and/or principal repayments are more than 365 days past due	Lifetime expected losses
Write-off	Interest and/or principal repayments are more than 3 years past due and there is no reasonable expectation of recovery	Asset is written off

NOTES TO THE FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT (Continued)**3.1 Financial risk factors (Continued)***(c) Liquidity risk*

Due to the capital intensive nature of the Group's business, the Group ensures that it maintains sufficient cash and credit lines to meet its liquidity requirements.

Management monitors rolling forecasts of the Group's liquidity reserve which comprises undrawn borrowing facilities and cash and cash equivalents (note 31) on the basis of expected cash flows. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The table below analyses the Group's financial liabilities into relevant maturity groupings at each balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
At 31 December 2018					
Borrowings (principal amount plus interest)	7,967,755	10,302,543	32,861,639	7,977,088	59,109,025
Trade and note payables (note 32)	1,407,577	—	—	—	1,407,577
Other payables and accrued charges	27,830,331	—	—	—	27,830,331
Financial guarantee	15,822,256	—	—	—	15,822,256
At 31 December 2017					
Borrowings (principal amount plus interest)	10,345,312	13,163,637	21,360,335	9,973,819	54,843,103
Trade and note payables (note 32)	157,875	—	—	—	157,875
Other payables and accrued charges	20,396,921	—	—	—	20,396,921
Financial guarantee	8,876,996	—	—	—	8,876,996

NOTES TO THE FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT (Continued)**3.2 Capital management**

The Group's objectives when managing capital are to

- safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders, and
- maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group's policy is to borrow centrally, using a mixture of long-term and short-term borrowing facilities, to meet anticipated funding requirements. These borrowings, together with cash generated from operations, are on-lent or contributed as equity to certain subsidiaries.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity, as shown in the consolidated balance sheet plus net debt.

The gearing ratios at 31 December 2018 and 2017 were as follows:

	As at 31 December	
	2018 RMB'000	2017 RMB'000
Total borrowings (note 35)	53,406,105	47,709,088
Less: Cash and cash equivalents (note 31)	(21,990,512)	(16,655,299)
Net debt	31,415,593	31,053,789
Total equity (including non-controlling interests)	42,911,718	36,988,918
Total capital	74,327,311	68,042,707
Gearing ratio	42.3%	45.6%

The total capital amount is subject to externally imposed capital requirement and the Group has complied with the capital requirement during the year. The decrease in the gearing ratio during 2018 resulted primarily due to the continuous stable growth in business operation.

NOTES TO THE FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Fair value estimation

(a) Financial assets and liabilities

(i) Fair value hierarchy

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

At 31 December 2018	Level 2 RMB'000	Level 3 RMB'000
Financial assets		
Derivative financial instruments – foreign currency forwards	9,069	–
Financial assets at FVOCI (note 24)	–	1,228,635
Total financial assets	9,069	1,228,635

At 31 December 2017	Level 2 RMB'000	Level 3 RMB'000
Financial assets		
Available-for-sale financial assets	–	1,206,645

There were no transfers between levels 1, 2 and 3 for recurring fair value measurements during the year.

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and equity securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

NOTES TO THE FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Fair value estimation

(a) Financial assets and liabilities

(ii) Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments include:

- The fair value of foreign currency forwards is determined using forward exchange rates at the balance sheet date
- The fair value of financial assets at FVOCI is determined using the market approach by reference to quoted market prices or dealer quotes for similar instruments

(iii) Fair value measurements using significant unobservable inputs (level 3)

The following table presents the changes in level 3 items for the year ended 31 December 2018:

	Financial assets at FVOCI RMB'000
Opening balance at 1 January 2018	1,206,645
Unrealised fair value changes recognised in other comprehensive income	21,990
Closing balance at 31 December 2018	1,228,635

The following table presents the changes in level 3 items for the year ended 31 December 2017:

	Available for sale financial assets RMB'000	Derivative financial instrument—call option RMB'000	Total RMB'000
Opening balance at 1 January 2017	1,186,208	79	1,186,287
Addition	55	—	55
Disposal	(575)	—	(575)
Unrealised fair value loss recognised in profit or loss	—	(79)	(79)
Unrealised fair value changes recognised in other comprehensive income	20,957	—	20,957
Closing balance at 31 December 2017	<u>1,206,645</u>	<u>—</u>	<u>1,206,645</u>

NOTES TO THE FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT (Continued)**3.3 Fair value estimation (Continued)***(a) Financial assets and liabilities (Continued)**(iv) Valuation processes*

The Group measures its financial assets at FVOCI and derivative financial instrument at fair value. The level 3 financial assets were revalued by Jones Lang LaSalle Incorporated ("JLL"), independent qualified valuers not related to the Group, who hold recognised relevant professional qualification at 31 December 2018.

The Group's finance department includes a team that reviews the valuations performed by the independent valuers for financial reporting purposes, including level 3 fair values. This team reports directly to the senior management and the audit committee ("AC"). Discussions of valuation processes and results are held between the management, AC and valuers at least once every six months, in line with the Group's interim and annual reporting dates.

The main Level 3 input used by the Group for financial assets at FVOCI pertains to the discount for lack of marketability. The discount for lack of marketability is quantified on the basis of relevant restricted stock studies and represents the most significant unobservable input applied to arrive at the fair value measurement.

(v) Fair value of other financial assets and liabilities

The Group also has a number of financial instruments which are not measured at fair value in the balance sheet. For the majority of these instruments, the fair values are not materially different to their carrying amounts, since the interest receivable/payable is either close to current market rates or the instruments are short-term in nature.

- Trade receivables
- Cash and cash equivalents and charged bank deposits
- Other receivables and deposits
- Other payables and accrued charges
- Trade and note payables
- Borrowings

NOTES TO THE FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Fair value estimation (Continued)

(b) Non-financial assets and liabilities

(i) Fair value hierarchy

This note explains the judgements and estimates made in determining the fair values of the non-financial assets that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its non-financial assets and liabilities into the three levels prescribed under the accounting standards. An explanation of each level is provided in note 3.3(a).

	Level 3	
	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Investment properties (note 17)	10,865,470	13,743,710
Total non-financial assets	10,865,470	13,743,710

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

There were no transfers between levels 1, 2 and 3 for recurring fair value measurements during the year.

(ii) Valuation techniques used to determine fair values

Fair values of completed investment properties are generally derived using the comparison method and income capitalisation method. This valuation method is based on the capitalisation of the net income and reversionary income potential by adopting appropriate capitalisation rates, which are derived from analysis of sale transactions and valuers' interpretation of prevailing investor requirements or expectations. The prevailing market rents adopted in the valuation have reference to recent lettings, within the subject properties and other comparable properties.

There were no changes to the valuation techniques during the year.

As at 31 December 2018, all investment properties are included in level 3 fair value hierarchy.

(iii) Fair value measurements using significant unobservable inputs (level 3)

Refer to note 17 for the changes in level 3 items for the years ended 31 December 2018 and 31 December 2017 recurring fair value measurement.

NOTES TO THE FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Fair value estimation (Continued)

(b) Non-financial assets and liabilities (Continued)

(iv) Valuation inputs and relationships to fair value

The following table summarises the quantitative information about the significant unobservable inputs used in recurring level 3 fair value measurements. See (ii) above for the valuation techniques adopted.

Description	Fair value at 31 December 2018 RMB'000	Valuation technique	Unobservable inputs	Range of unobservable inputs
Completed investment properties in PRC	10,032,337	Comparison method and income capitalisation	(1) Market rents (2) Capitalisation rate	(1) RMB47/sf/mth to RMB660/sf/mth (2) 3.8% to 7%
Completed investment properties in Hong Kong	833,133	Comparison method and income capitalisation	(1) Market rents (2) Capitalisation rate	(1) HKD8/sf/mth to HKD189/sf/mth (2) 2.8% to 5%

Description	Fair value at 31 December 2017 RMB'000	Valuation technique	Unobservable inputs	Range of unobservable inputs
Completed investment properties in PRC	12,977,160	Comparison method and income capitalisation	(1) Market rents (2) Capitalisation rate	(1) RMB50/sf/mth to RMB700/sf/mth (2) 4% to 10.5%
Completed investment properties in Hong Kong	766,550	Comparison method and income capitalisation	(1) Market rents (2) Capitalisation rate	(1) HKD7/sf/mth to HKD285/sf/mth (2) 3.5% to 4.5%

There are inter-relationships between unobservable inputs. Expected vacancy rates may impact the yield with higher vacancy rates resulting in higher yields.

Capitalisation and discount rates are estimated by JLL based on the risk profile of the properties being valued. The higher the rates, the lower the fair value.

Prevailing market rents are estimated based on recent lettings, within the subject properties and other comparable properties. The lower the rents, the lower the fair value.

NOTES TO THE FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Fair value estimation (Continued)

(b) Non-financial assets and liabilities (Continued)

(v) Valuation processes

The Group measures its investment properties at fair value. The investment properties were revalued by JLL, who have recent experience in the locations and segments of the investment properties valued, at 31 December 2018. For all investment properties, their current use equates to the highest and best use.

The Group's finance department includes a team that review the valuations performed by the independent valuer for financial reporting purposes. This team reports directly to the senior management and the AC. Discussions of valuation processes and results are held between the management, AC, the valuation team and valuers at least once every six months, in line with the Group's interim and annual reporting dates.

At each financial year end the finance department:

- Verifies all major inputs to the independent valuation report;
- Assess property valuations movements when compared to the prior year valuation report;
- Holds discussions with the independent valuer.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies.

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

(a) Fair value of investment properties

The fair value of investment properties is determined by using valuation technique. Details of the judgement and assumptions have been disclosed in note 3.3(b).

(b) Net realisable value of properties under development and properties held for sale

The Group writes down properties under development and properties held for sale to net realisable value based on assessment of the realisability of properties under development and properties held for sale which takes into account cost to completion based on past experience and net sales value based on prevailing market conditions. If there is an increase in cost to completion or a decrease in net sales value, the net realisable value will decrease which may result in writing down properties under development and properties held for sale to net realisable value. Write-downs are recorded where events or changes in circumstances indicate that the balances may not be realised. The identification of write-downs requires the use of judgement and estimates. Where the expectation is different from the original estimate, the carrying value of properties under development and properties held for sale is adjusted in the period in which such estimate is changed.

NOTES TO THE FINANCIAL STATEMENTS

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)**(c) Current and deferred income tax**

The Group is subject to income tax primarily in China and Hong Kong. Significant judgement is required in determining the amount of the provision for income taxes and the timing of the related payments. There are many transactions and calculations for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the land appreciation tax, income tax and deferred tax provisions in the period in which such determination are made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised when management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such difference will impact the recognition of deferred tax assets and income tax in the period in which such estimate is changed.

(d) Fair value of financial assets at FVOCI/AFS

The best evidence of fair value is current prices in an active market for similar financial assets at FVOCI (2017: AFS). In the absence of such information, the Group determines the amount within a range of reasonable fair value estimates. Details of fair value estimates on financial assets at FVOCI (2017: AFS) have been disclosed in note 24.

(e) Consolidation

Control is the basis for consolidation. Control exists when the Group is able to influence profitability of another company through its involvement and power over the operation of another company. To assess whether an entity has control over another entity involves significant judgement. Management has performed an assessment and considered the current accounting treatments for its subsidiaries, associated entities and joint ventures to be appropriate. Yuexiu Real Estate Investment Trust ("Yuexiu REIT") is accounted for as an associated entity since the Group, among other reasons, only has significant influence on but no control over Yuexiu REIT. The key decisions of Yuexiu REIT are principally handled and monitored by an independent trustee and an asset management company.

The Group has no equity in and/or control over the independent trustee. Among other key factors, the Group does not have any power to control the appointment of directors of the asset management company of Yuexiu REIT, as all of the directors are nominated by the nomination committee, which is comprised by a majority of independent non-executive directors. Accordingly, the Group does not control Yuexiu REIT.

NOTES TO THE FINANCIAL STATEMENTS

5 SEGMENT INFORMATION

The chief operating decision-maker has been identified as the executive directors. Management determines the operating segments based on the Group's internal reports, which are then submitted to the executive directors for performance assessment and resources allocation.

The executive directors consider the business by nature of business activities and assess the performance of property development, property management, property investment and others.

The Group's operating and reportable segments under HKFRS 8 and the types of turnover are as follows:

Property development	sales of property development activities
Property management	property management services
Property investment	property rentals
Other	revenue from real estate agency and decoration services

The executive directors assess the performance of the operating segments based on a measure of segment results. This measurement basis excludes the effects of non-recurring expenditure from the operating segments and other unallocated operating costs. Other information provided, except as noted below, to the executive directors are measured in a manner consistent with that in the consolidated financial statements.

Total assets excluded deferred tax assets, prepaid taxation and corporate assets. Corporate assets are not directly attributable to segments.

Sales between segments are carried out on terms equivalent to those that prevail in arm's length transactions. The revenue from external parties reported to the executive directors are measured in a manner consistent with that in the consolidated statement of profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

5 SEGMENT INFORMATION (Continued)

	Property development RMB'000	Property management RMB'000	Property investment RMB'000	Others RMB'000	Group RMB'000
Year ended 31 December 2018					
Revenue	24,290,331	1,014,908	718,753	1,492,218	27,516,210
Inter-segment revenue	—	(168,412)	(34,038)	(880,316)	(1,082,766)
Revenue from external customers	24,290,331	846,496	684,715	611,902	26,433,444
Revenue from contracts with customers:					
Recognised at a point in time	24,290,331	—	—	—	24,290,331
Recognised over time	—	846,496	—	611,902	1,458,398
Revenue from other sources:					
Rental income	—	—	684,715	—	684,715
Segment results	6,113,344	66,415	863,947	115,490	7,159,196
Depreciation and amortisation	(61,984)	(2,686)	—	(302)	(64,972)
Fair value gains on revaluation of investment properties, net	—	—	370,875	—	370,875
Share of profit/(loss) of:					
- joint ventures	61,420	—	—	(2,954)	58,466
- associated entities	25,187	—	385,400	36,162	446,749
Year ended 31 December 2017					
Revenue	21,794,691	855,095	633,362	1,407,067	24,690,215
Inter-segment revenue	—	(123,833)	(15,540)	(756,934)	(896,307)
Revenue from external customers	21,794,691	731,262	617,822	650,133	23,793,908
Segment results	4,182,419	13,246	250,389	50,502	4,496,556
Depreciation and amortisation	(41,066)	(2,089)	—	(183)	(43,338)
Fair value losses on revaluation of investment properties, net	—	—	(119,326)	—	(119,326)
Share of profit of:					
- joint ventures	81,715	—	—	—	81,715
- associated entities	132,724	—	496,372	34,144	663,240

NOTES TO THE FINANCIAL STATEMENTS

5 SEGMENT INFORMATION (Continued)

	Property development RMB'000	Property management RMB'000	Property investment RMB'000	Others RMB'000	Group RMB'000
As at 31 December 2018					
Segment assets	131,179,966	1,289,242	10,865,470	2,064,894	145,399,572
Interests in joint ventures	6,410,367	—	1,059	62,446	6,473,872
Interests in associated entities	7,336,060	—	6,298,546	277,707	13,912,313
Total reportable segments' assets	144,926,393	1,289,242	17,165,075	2,405,047	165,785,757
Total reportable segments' assets include: Additions to non-current assets (note)	126,332	6,294	5,266	2,947	140,839
As at 31 December 2017					
Segment assets	93,538,000	1,191,239	14,055,308	2,243,531	111,028,078
Interests in joint ventures	5,507,671	—	1,059	61,400	5,570,130
Interests in associated entities	8,068,841	—	5,892,103	241,708	14,202,652
Total reportable segments' assets	107,114,512	1,191,239	19,948,470	2,546,639	130,800,860
Total reportable segments' assets include: Additions to non-current assets (note)	535,155	5,899	9,613	9,850	560,517

Note: Non-current assets represent non-current assets other than financial instruments, interests in joint ventures, interests in associated entities and deferred tax assets.

A reconciliation of total segment results to total profit before taxation is provided as follows:

	Year ended 31 December	
	2018 RMB'000	2017 RMB'000
Segment results	7,159,196	4,496,556
Unallocated operating costs (note)	(88,367)	(93,576)
Other gains, net (note 7)	1,039,814	670,617
Operating profit	8,110,643	5,073,597
Finance income (note 8)	169,665	276,557
Finance costs (note 9)	(2,002,121)	(1,309,699)
Share of profit of:		
– joint ventures (note 22)	58,466	81,715
– associated entities (note 23)	446,749	663,240
Profit before taxation	6,783,402	4,785,410

Note: Unallocated operating costs include mainly staff salaries, rent and rates, depreciation and other operating expenses.

NOTES TO THE FINANCIAL STATEMENTS

5 SEGMENT INFORMATION (Continued)

A reconciliation of reportable segments' assets to total assets is provided as follows:

	As at 31 December	
	2018 RMB'000	2017 RMB'000
Total reportable segments' assets	165,785,757	130,800,860
Deferred tax assets (note 39)	492,137	294,853
Prepaid taxation	1,772,324	1,289,824
Corporate assets (note)	770,280	756,974
Total assets	168,820,498	133,142,511

Note: Corporate assets represent total assets other than interests in subsidiaries, interest in associated entities and dividend receivables of the Company.

No geographical segment analysis is shown as more than 90% of the Group's revenue are derived from activities in and from customers located in China and more than 90% of the carrying values of the Group's non-current assets excluding deferred income tax are situated in China.

For the year ended 31 December 2018, the Group does not have any single customer with the transaction value over 10% of the total external sales (2017: same).

6 EXPENSES BY NATURE

Cost of sales, selling and marketing costs, and administrative expenses include the following:

	2018 RMB'000	2017 RMB'000
Cost of properties sold included in cost of sales	16,604,384	15,520,786
Employee benefit expenses (note 13)	1,464,379	1,332,561
Selling and promotion expenses	571,314	494,341
Business tax and other levies	324,710	649,425
Cost of inventories included in cost of sales	166,406	431,869
Direct operating expenses arising from investment properties	133,674	187,649
Provision for impairment of properties held for sale (note 26)	85,591	319,496
Operating leases - Land and buildings	83,205	63,850
Depreciation (note 16)	54,724	32,838
Amortisation of land use rights (note 18)	10,248	10,500
Auditor's remuneration	6,000	6,000
Other expenses	231,530	222,795
	19,736,165	19,272,110

NOTES TO THE FINANCIAL STATEMENTS

7 OTHER GAINS, NET

	2018 RMB'000	2017 RMB'000
Remeasurement gains on interests in associated entities (note 19(a)(b))	553,636	—
Gain on disposal of subsidiaries (note 20(a)(b))	463,494	585,312
Gain on bargain purchase on acquisition (note 19(b))	40,111	—
Fair value loss on supporting arrangement liabilities (note 45(b)(II))	(22,736)	—
Loss on disposal of non-current assets held-for-sale	(5,550)	(12,004)
(Loss)/gain on disposal of property, plant and equipment and land use right	(82)	98,336
Others	10,941	(1,027)
	1,039,814	670,617

8 FINANCE INCOME

	2018 RMB'000	2017 RMB'000
Interest income from bank deposits	109,933	178,374
Interest income on amount due from associated entities (note 45(b)(II)(V))	57,308	98,183
Interest income on amount due from a joint venture (note 45(b)(XI))	2,424	—
	169,665	276,557

9 FINANCE COSTS

	2018 RMB'000	2017 RMB'000
Interest on bank borrowings and overdrafts	1,356,077	1,384,525
Interest on borrowings from an associated entity (note 45(b)(II))	23,000	20,742
Interest on borrowings from fellow subsidiaries (note 45(b)(III))	1,982	—
Interest on borrowings from an intermediate holding company (note 45(b)(I))	128,785	108,997
Interest on other borrowings	1,422,669	524,464
Interest on other payable (note (a))	218,248	142,368
Net fair value gains on derivative financial instruments	(8,394)	—
Net foreign exchange loss on financing activities	653,146	28,197
Total borrowing costs incurred	3,795,513	2,209,293
Less: amount capitalised as properties under development and property, plant and equipment (note (b))	(1,793,392)	(899,594)
	2,002,121	1,309,699

NOTES TO THE FINANCIAL STATEMENTS

9 FINANCE COSTS (Continued)

Note:

- (a) Interest on other payable represents interest on the current amount of subsidiaries of the Group due to NCI and related parties of NCI. The balance is approximately RMB4,910 million as at 31 December 2018 (31 December 2017: RMB2,200 million) and interest bearing at weighted average rate of 6.69% per annum (2017: 6.83% per annum). The balance, which is included in other payables and accrued charges and denominated in RMB.
- (b) Borrowing costs capitalised during the year are calculated by applying a weighted average capitalisation rate of 4.82 percent per annum (2017: 4.56 percent per annum).

10 TAXATION

- (a) Hong Kong profits tax has been provided at the rate of 16.5 percent (2017: 16.5 percent) on the estimated assessable profit for the year.
- (b) China enterprise income taxation is provided on the profit of the Group's subsidiaries, associated entities and joint ventures in China at 25 percent (2017: 25 percent).

In addition, dividend distribution out of profit of foreign-invested enterprises earned after 1 January 2008 is subject to corporate withholding income tax at tax rates ranging from 5 percent to 10 percent. During the year, withholding income tax was provided for dividend distributed and undistributed profit, recognised based on HKFRS, of the Group's subsidiaries, joint ventures and associated entities in China at tax rates ranging from 5 percent to 10 percent (2017: 5 percent to 10 percent).

- (c) China land appreciation tax is levied at progressive rates ranging from 30 percent to 60 percent on the appreciation of land value, being the proceeds of sales of properties less deductible expenditure including costs of land, development and construction.
- (d) The amount of taxation charged to the consolidated statement of profit or loss comprises:

	2018	2017
	RMB'000	RMB'000
Current taxation		
China enterprise income tax	1,472,708	1,250,098
China land appreciation tax	1,870,710	1,068,951
Deferred taxation		
Origination and reversal of temporary difference	(10,580)	(116,714)
China land appreciation tax	92,008	19,319
Corporate withholding income tax on undistributed profits	319,063	232,110
	3,743,909	2,453,764

NOTES TO THE FINANCIAL STATEMENTS

10 TAXATION (Continued)

- (e) The taxation on the Group's profit before taxation less share of profits and losses of associated entities and joint ventures differs from the theoretical amount that would arise using the enterprise income tax rate of China, where majority of the Group's operations were carried out, as follows:

	2018 RMB'000	2017 RMB'000
Profit before taxation less share of profit of associated entities and joint ventures	6,278,187	4,040,455
Calculated at China enterprise income tax rate of 25 percent (2017: 25 percent)	1,569,547	1,010,114
Effect of different taxation rates	75,225	95,118
Income not subject to taxation	(34,263)	(36,795)
Expenses not deductible for taxation purposes	246,686	254,352
Net effect of tax loss not recognised and utilisation of previously unrecognised tax losses	95,613	82,663
Effect of land appreciation tax deductible for calculation of income tax purposes	(490,680)	(272,068)
Corporate withholding income tax	319,063	232,110
	1,781,191	1,365,494
Land appreciation tax	1,962,718	1,088,270
Taxation charges	3,743,909	2,453,764

- (f) The tax charges relating to components of other comprehensive income are as follows:

	2018			2017		
	Before tax	Tax charges	After tax	Before tax	Tax charges	After tax
Fair value gains of financial assets at FVOCI	21,990	(6,829)	15,161	20,957	(6,508)	14,449

NOTES TO THE FINANCIAL STATEMENTS

11 EARNINGS PER SHARE**Basic**

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company over the weighted average number of ordinary shares in issue during the year.

	2018	2017
Profit attributable to equity holders of the Company (RMB'000)	2,727,885	2,260,242
Weighted average number of ordinary shares in issue ('000)	12,401,307	12,401,307
Basic earnings per share (RMB)	0.2200	0.1823

Diluted

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

Since there was no dilutive potential ordinary shares during the year ended 31 December 2018, diluted earnings per share is equal to basic earnings per share (2017: same).

12 DIVIDENDS

The dividends paid in 2018 was approximately RMB1,006 million (2017: RMB767 million). The directors proposed a final dividend of HKD0.051 per ordinary share, totaling approximately RMB546 million. Such dividend is to be approved by the shareholders at the Annual General Meeting on 29 May 2019. These financial statements do not reflect this dividend payable.

	2018 RMB'000	2017 RMB'000
Interim, paid, of HKD0.042 equivalent to RMB0.036 (2017: HKD0.040 equivalent to RMB0.034) per ordinary share	462,368	422,279
Final, proposed, of HKD0.051 equivalent to RMB0.044 (2017: HKD0.052 equivalent to RMB0.042) per ordinary share	545,657	520,855
	1,008,025	943,134

Note:

If the total number of issued ordinary shares as at the record date for the final proposed dividend differs from that as at the date of this announcement, the total amount of the final proposed dividend paid by the Company may change.

NOTES TO THE FINANCIAL STATEMENTS

13 EMPLOYEE BENEFIT EXPENSES

	2018 RMB'000	2017 RMB'000
Wages, salaries and bonus	1,166,749	1,120,276
Pension costs (defined contribution plans)	70,166	40,123
Medical benefits costs (defined contribution plans)	46,547	25,462
Social security costs	108,827	83,537
Termination benefits	1,801	—
Staff welfare	70,289	63,163
	1,464,379	1,332,561

Pension scheme arrangements

The Group operates a defined contribution scheme ("ORSO Scheme") for certain Hong Kong employees under the Occupational Retirement Schemes Ordinance. Contributions to the ORSO Scheme by the employer and employees are calculated at 5 percent to 20 percent and 5 percent respectively of the employees' basic salaries.

The Group's contributions to the ORSO Scheme are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. There are no forfeited contributions for both years presented.

The Group also participates in the Mandatory Provident Fund Scheme ("MPF Scheme") for other Hong Kong employees. Under the MPF Scheme, each of the Group and its employees makes monthly contributions to the scheme at 5 percent of the employee's relevant income, as defined in the Mandatory Provident Fund Scheme Ordinance. Both the Group's and the employee's contributions are subjected to a cap of HKD1,500 (before 1 Jun 2014: HKD1,250) per month and contributions thereafter are voluntary. The contributions under the MPF Scheme are fully and immediately vested in the employees as accrued benefits once they are paid.

Subsidiaries of the Company in China are required to participate in defined contribution retirement plans organised by the respective Provincial or Municipal Government, and make monthly contributions to the retirement plans in the range of 16 to 24 percent of the monthly salaries of the employees. The Group has no further obligations for the actual payment of pensions beyond its contributions. The state-sponsored retirement plans are responsible for the entire pension obligations payable to retired employees.

NOTES TO THE FINANCIAL STATEMENTS

14 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' emoluments

The remuneration of every director is set out below:

31 December 2018

Emoluments paid or received in respect of a person's services as a director,
whether of the Company or its subsidiary undertaking

Name of Director	Fees RMB'000	Salaries RMB'000	Discretionary Bonuses (note a (vi)) RMB'000	Pension costs RMB'000	Housing allowance RMB'000	Estimated money value of other benefits (note a (vii)) RMB'000	Remuneration paid or receivable in respect of accepting office as director RMB'000	Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking	Total RMB'000
								RMB'000	
ZHANG Zhaoxing (Note a(i))	–	1,540	3,590	32	44	–	–	–	5,206
ZHU Chunxiu (Note a(i))	–	1,540	2,468	32	44	–	–	–	4,084
LIN Zhaoyuan	–	1,540	3,428	32	44	3,300	–	–	8,344
LIN Feng (Note a(ii))	–	586	1,637	32	44	864	–	–	3,163
LI Feng	–	1,490	2,240	32	44	–	–	–	3,806
CHEN Jing	–	1,490	2,240	32	44	–	–	–	3,806
LIU Yan (Note a(ii))	–	568	806	32	44	–	–	–	1,450
YU Lup Fat Joseph	355	–	–	–	–	–	–	–	355
LEE Ka Lun	288	–	–	–	–	–	–	–	288
LAU Hon Chuen Ambrose	288	–	–	–	–	–	–	–	288
Total	931	8,754	16,409	224	308	4,164	–	–	30,790

NOTES TO THE FINANCIAL STATEMENTS

14 BENEFITS AND INTERESTS OF DIRECTORS (Continued)

(a) Directors' emoluments (Continued)

The remuneration of every director is set out below (Continued):

31 December 2017

Emoluments paid or received in respect of a person's services as a director,
whether of the Company or its subsidiary undertaking

Name of Director	Fees RMB'000	Salaries RMB'000	Discretionary Bonuses (note a (vi)) RMB'000	Pension costs RMB'000	Housing allowance RMB'000	Estimated money value of other benefits (note a (vii)) RMB'000	Remuneration paid or receivable RMB'000	Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking	Total RMB'000
								RMB'000	
ZHANG Zhaoxing	–	1,540	6,295	105	510	–	–	–	8,450
ZHU Chunxiu	–	1,540	3,790	98	513	–	–	–	5,941
LIN Zhaoyuan	–	1,490	6,391	156	228	–	–	–	8,265
LI Feng	–	1,490	1,654	127	155	–	–	–	3,426
OU Junming (Note a(iii))	–	804	910	37	98	–	–	–	1,849
CHEN Jing	–	686	750	57	84	–	–	–	1,577
OU Shao (Note a(iv))	–	44	143	6	–	–	–	–	193
YU Lup Fat Joseph	321	–	–	–	–	–	–	–	321
LEE Ka Lun	252	–	–	–	–	–	–	–	252
LAU Hon Chuen Ambrose	252	–	–	–	–	–	–	–	252
Total	825	7,594	19,933	586	1,588	–	–	–	30,526

NOTES TO THE FINANCIAL STATEMENTS

14 BENEFITS AND INTERESTS OF DIRECTORS (Continued)**(a) Directors' emoluments (Continued)**

Notes:

- (i) Resigned on 14 August 2018.
- (ii) Appointed on 14 August 2018.
- (iii) Resigned on 17 July 2017.
- (iv) Resigned on 13 January 2017.
- (v) Discretionary bonuses are determined by the Group's financial performance.
- (vi) Other benefits include share award scheme.

(b) Directors' termination benefits

During the year, no payments or benefits in respect of termination of directors' services were paid or made, directly or indirectly, to the directors; nor are any payable (2017: Nil).

(c) Consideration provided to third parties for making available directors' services

During the year, no consideration was provided to or receivable by third parties for making available directors' services (2017: Nil).

(d) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

During the year, there are no loans, quasi-loans or other dealings in favour of the directors, their controlled bodies corporate and connected entities (2017: Nil).

(e) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Company's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2017: Nil).

15 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

No directors waived emoluments in respect of the year ended 31 December 2018 (2017: same). No emoluments were paid or payable by the Group to any director as an inducement to join or upon joining the Group, or as compensation for loss of office for both years presented.

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2018 are also directors whose emoluments are reflected in the analysis presented in note 14 (2017: same).

NOTES TO THE FINANCIAL STATEMENTS

16 PROPERTY, PLANT AND EQUIPMENT

	Land RMB'000 (note(a))	Buildings RMB'000	Construction in progress RMB'000	Leasehold improvements, furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
Year ended 31 December 2018						
Opening net book amount	5,104	623,886	1,272,079	51,035	8,973	1,961,077
Exchange differences	336	1,547	—	67	17	1,967
Additions	—	2,351	110,563	20,686	1,973	135,573
Disposals	—	(47,824)	—	(13)	(52)	(47,889)
Depreciation (note 6)	(15)	(41,457)	—	(10,564)	(2,688)	(54,724)
Transfer to investment properties (note 17)	—	(1,524)	—	—	—	(1,524)
Transfer	—	553,653	(553,653)	—	—	—
Acquisition of subsidiaries (note 19)	—	—	—	646	—	646
Disposal of a subsidiary (note 20)	—	—	—	(220)	(94)	(314)
Closing net book amount	5,425	1,090,632	828,989	61,637	8,129	1,994,812
At 31 December 2018						
Cost	12,430	1,248,488	828,989	160,144	64,482	2,314,533
Accumulated depreciation and impairment	(7,005)	(157,856)	—	(98,507)	(56,353)	(319,721)
Net book amount	5,425	1,090,632	828,989	61,637	8,129	1,994,812

NOTES TO THE FINANCIAL STATEMENTS

16 PROPERTY, PLANT AND EQUIPMENT (Continued)

	Land RMB'000 (note(a))	Buildings RMB'000	Construction in progress RMB'000	Leasehold improvements, furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
Year ended 31 December 2017						
Opening net book amount	5,417	196,718	1,339,877	32,249	9,554	1,583,815
Exchange differences	(299)	(488)	—	(88)	(24)	(899)
Additions	—	31,614	477,254	33,362	3,420	545,650
Disposals	—	(130,663)	—	(2,586)	(850)	(134,099)
Disposal of subsidiaries	—	—	—	(406)	(146)	(552)
Depreciation (note 6)	(14)	(18,347)	—	(11,496)	(2,981)	(32,838)
Transfer	—	545,052	(545,052)	—	—	—
Closing net book amount	5,104	623,886	1,272,079	51,035	8,973	1,961,077
At 31 December 2017						
Cost	11,591	743,095	1,272,079	144,530	66,055	2,237,350
Accumulated depreciation and impairment	(6,487)	(119,209)	—	(93,495)	(57,082)	(276,273)
Net book amount	5,104	623,886	1,272,079	51,035	8,973	1,961,077

Note:

- (a) All the land of the Group are located in Hong Kong with lease terms under 50 years.
- (b) Refer to note 43 for information on assets pledged as security by the Group.

NOTES TO THE FINANCIAL STATEMENTS

17 INVESTMENT PROPERTIES

	Completed investment properties		
	China RMB'000	Hong Kong RMB'000	Total RMB'000
Opening balance at 1 January 2018	12,977,160	766,550	13,743,710
Exchange differences	—	35,936	35,936
Transfer from property, plant and equipment (note 16)	1,524	—	1,524
Additions	—	5,266	5,266
Disposals	(92,841)	—	(92,841)
Disposal of a subsidiary (note 20)	(3,199,000)	—	(3,199,000)
Fair value gains, net (note)	346,406	24,469	370,875
Closing balance at 31 December 2018	10,033,249	832,221	10,865,470

	Completed investment properties		
	China RMB'000	Hong Kong RMB'000	Total RMB'000
Opening balance at 1 January 2017	13,585,810	751,442	14,337,252
Exchange differences	—	(50,560)	(50,560)
Additions	—	9,613	9,613
Disposals	(352,769)	—	(352,769)
Disposal of subsidiaries	(80,500)	—	(80,500)
Fair value (losses)/gains, net (note)	(175,381)	56,055	(119,326)
Closing balance at 31 December 2017	12,977,160	766,550	13,743,710

Note: The net fair value gains of approximately RMB371 million (2017 net fair value losses: approximately RMB119 million) are included in profit or loss that are attributable to unrealised gains or loss for assets held at the end of the year.

NOTES TO THE FINANCIAL STATEMENTS

17 INVESTMENT PROPERTIES (Continued)

Refer to note 43 for information on assets pledged as security by the Group.

The Group's interests in investment properties at their net book values are analysed as follows:

	2018 RMB'000	2017 RMB'000
In Hong Kong:		
Leases of between 10 to 50 years	832,221	766,550
Outside Hong Kong (note):		
Leases of between 10 to 50 years	10,033,249	12,977,160
	10,865,470	13,743,710

Note: Properties outside Hong Kong comprise properties located in China.

18 LAND USE RIGHTS

The Group's interests in land use rights represent prepaid operating lease payments and their net book values are analysed as follows:

	2018 RMB'000	2017 RMB'000
Beginning of the year	217,817	233,326
Additions	—	5,254
Disposals	—	(10,263)
Amortisation (note 6)	(10,248)	(10,500)
End of the year	207,569	217,817

	2018 RMB'000	2017 RMB'000
Analysed as:		
Non-current, in China	207,569	217,817

The Group's land use rights at their net book values are analysed as follows:

	2018 RMB'000	2017 RMB'000
In China:		
Land use rights of between 10 to 50 years	207,569	217,817

Refer to note 43 for information on assets pledged as security by the Group.

NOTES TO THE FINANCIAL STATEMENTS

19 BUSINESS COMBINATION

(a) Acquisition of Guangzhou Hong Sheng Property Development Co., Ltd.

On 30 May 2018, the Group, Guangzhou Ming Rui No.1 Industrial Investment Partnership (Limited Partnership) ("Ming Rui No.1") and Guangzhou Hong Sheng Property Development Co., Ltd. ("GHPD") entered into an equity transfer agreement which Ming Rui No. 1 sold 100% of the equity interest in Guangzhou Yunxiu Real Estate Co., Ltd. ("Yunxiu Company") to the Group for a consideration of RMB116 million and the Group agreed to contribute RMB65 million as shareholder's loan into GHPD. Yunxiu Company owns 2% of the equity interest in GHPD. This transaction was completed on 6 June 2018.

Upon completion of the transaction, the Group's indirect effective interest in GHPD will increase from 49% to approximately 50.91%. Accordingly, GHPD would become an indirect non-wholly owned subsidiary of the Group.

Consideration	RMB'000
Cash paid (comprises consideration for equity transfer and shareholder's loan transfer)	180,926
Fair value of 49% shares held by the Group	2,842,000
	3,022,926

Recognised amounts of identifiable net assets acquired were as follows:

	RMB'000
Property, plant and equipment	551
Deferred tax assets	84,349
Properties under development	11,122,930
Other receivables, prepayments and deposits	4,354,329
Contract costs	35,331
Cash and cash equivalents	397,844
Prepaid taxation	215,829
Trade and note payables	(13,172)
Contract liabilities	(3,211,875)
Other payables and accrued charges	(3,257,547)
Borrowings	(3,094,345)
Taxation payable	(6,363)
Deferred tax liabilities	(762,935)
Net identifiable assets acquired	5,864,926
Non-controlling interest	(2,842,000)
	3,022,926
Fair value of interest in an associated entity	2,842,000
Less: Interest in an associated entity	(2,293,724)
	548,276

NOTES TO THE FINANCIAL STATEMENTS

19 BUSINESS COMBINATION (Continued)**(a) Acquisition of Guangzhou Hong Sheng Property Development Co., Ltd. (Continued)**

Analysis of net inflow of cash and cash equivalents in respect of acquisition of a subsidiary:

	RMB'000
Cash paid	(180,926)
Cash and bank balance acquired	397,844
	<u>216,918</u>

The acquired business contributed revenues of RMB1,325 million and net loss of RMB48 million to the Group for the period from 6 June 2018 to 31 December 2018.

If the acquisition had occurred on 1 January 2018, consolidated revenue and consolidated profit after tax of the Group for the year ended 31 December 2018 would have been RMB26,433 million and RMB3,029 million respectively.

(b) Acquisition of Wuhan Kangjing Industrial Investment Co., Ltd.

On 14 February 2018, the Group exercised a call option and entered into the equity transfer agreement with Guangzhou Yuexiu Renda No.4 Business Investment Enterprise (Limited Partnership) ("Renda No.4"). Renda No.4 sold 92% of the equity interest of Wuhan Kangjing Industrial Investment Co., Ltd. ("Kangjing Company") at a cash consideration of approximately RMB71 million and the Group agreed to contribute RMB3,250 million as shareholder's loan into Kangjing Company. The consideration was consistent with the exercise price agreed in the call option contract, which was equivalent to the total capital contributions made by Renda No.4 in Kangjing Company plus a rate of return not exceeding 12% per annum. This transaction was completed on 31 March 2018.

	RMB'000
Cash paid (comprises consideration for equity transfer and shareholder's loan transfer)	3,321,250
Fair value of 8% shares held by the Group	9,684
	<u>3,330,934</u>

NOTES TO THE FINANCIAL STATEMENTS

19 BUSINESS COMBINATION (Continued)**(b) Acquisition of Wuhan Kangjing Industrial Investment Co., Ltd. (Continued)**

Recognised amounts of identifiable net assets acquired were as follows:

	RMB'000
Property, plant and equipment	95
Properties under development	14,027,000
Other receivables, prepayments and deposits	104,021
Contract costs	45,673
Cash and cash equivalents	1,169,984
Prepaid taxation	180,160
Trade and note payables	(336,884)
Contract liabilities	(4,152,080)
Other payables and accrued charges	(68,605)
Borrowings	(7,559,910)
Deferred tax liabilities	(38,409)
Net identifiable assets acquired	3,371,045
Gain on bargain purchase on acquisition (note 7)	(40,111)
	<u>3,330,934</u>
Fair value of interest in an associated entity	9,684
Less: Interest in an associated entity	(4,324)
Remeasurement gain on interest in an associated entity (note 7)	<u>5,360</u>

Analysis of net outflow of cash and cash equivalents in respect of acquisition of a subsidiary

	RMB'000
Cash paid	(3,321,250)
Cash and bank balance acquired	1,169,984
	<u>(2,151,266)</u>

The acquired business contributed revenues of RMB4,956 million and net profit of RMB299 million to the Group for the period from 31 March 2018 to 31 December 2018.

If the acquisition had occurred on 1 January 2018, consolidated revenue and consolidated profit after tax of the Group for the year ended 31 December 2018 would have been RMB26,451 million and RMB2,951 million respectively.

NOTES TO THE FINANCIAL STATEMENTS

20 DISPOSAL OF SUBSIDIARIES

(a) Disposal of Guangzhou Yuehui Property Co., Ltd

On 21 December 2018, the Group entered into an equity transfer agreement to dispose 77.79% equity interest in Guangzhou Yuehui Property Co., Ltd (“Guangzhou Yuehui”), a subsidiary of the Group, to Guangzhou Jiachuang Economic Information Consulting Co., Ltd (“Guangzhou Jiachuang”), an associated entity of the Group, at a cash consideration of approximately RMB2,418 million, and transfer the assignment of the shareholder’s loan of approximately RMB280 million. The transaction was completed on 25 December 2018, thereafter, Guangzhou Yuehui became an associated entity of the Group.

Details of the net assets disposed and the gain on disposal are as follows:

	2018 RMB'000
Assets and liabilities disposed of:	
Property, plant and equipment	314
Investment property	3,199,000
Properties held for sale	70,811
Other receivables, prepayments and deposits	2,944
Prepaid taxation	190,704
Cash and cash equivalents	28,371
Other payables and accrued charges	(371,364)
Taxation payable	(245,483)
Deferred tax liabilities	(182,709)
Net assets disposed	2,692,588
Consideration receivable (comprises consideration for equity transfer and shareholder’s loan transfer)	2,697,544
Investment in an associated entity	690,226
Less: net assets disposed	(2,692,588)
Less: shareholder’s loan	(280,044)
Gain on disposal of a subsidiary (note 7 and 45(b)(X))	415,138
Analysis of net inflow of cash and cash equivalents in respect of disposal of a subsidiary	
Cash received	—
Cash and bank balances disposed	(28,371)
	(28,371)

The gain on disposal of Guangzhou Yuehui includes gain on disposal of a subsidiary of RMB322,936,000 and gain attributable to measuring fair value of the retained interest in an associated entity of RMB92,202,000.

NOTES TO THE FINANCIAL STATEMENTS

20 DISPOSAL OF SUBSIDIARIES (Continued)**(b) Disposal of Wealthy Reach Holdings Ltd**

On 23 December 2018, the Group entered into a share purchase deed to dispose of 100% equity interest in Wealthy Reach Holdings Ltd and its subsidiaries, to Yuexiu Real Estate Investment Trust ("Yuexiu REIT"), an associated entity of the Group, at a cash consideration of approximately RMB563 million, including the assignment of the shareholder's loan of approximately RMB550 million. The transaction was completed on 28 December 2018.

Details of the net assets disposed and the gain on disposal are as follow:

	2018
	RMB'000
Assets and liabilities disposed of:	
Properties held for sale	562,329
Other receivables, prepayments and deposits	12,830
Cash and cash equivalents	26,136
Contract liabilities	(4,268)
Other payables and accrued charges	(584,034)
Taxation payable	(26,482)
Deferred tax liabilities	(21,551)
Net liabilities disposed	(35,040)
Consideration received (comprises consideration for equity transfer and shareholder's loan transfer)	556,711
Consideration receivable	6,710
Less: net liabilities disposed	35,040
Less: shareholder's loan	(550,105)
Gain on disposal of a subsidiary (note 7 and note 45(b)(III))	48,356
Analysis of net inflow of cash and cash equivalents in respect of disposal of a subsidiary	
Cash received	556,711
Cash and bank balances disposed	(26,136)
	530,575

21 GAINS ON SALES OF INVESTMENT PROPERTIES

During the year, the Group disposed of certain investment properties with total sales proceeds of approximately RMB96 million (2017: RMB351 million) resulting in a total net gain of approximately RMB3 million (2017: RMB1 million).

NOTES TO THE FINANCIAL STATEMENTS

22 INTERESTS IN JOINT VENTURES

	2018 RMB'000	2017 RMB'000
Investments in joint ventures		
At 1 January	1,844,186	1,700,012
Additions	1,053,914	62,459
Share of profit	58,466	81,715
At 31 December 2018	2,956,566	1,844,186
Amounts due from joint ventures (note 45(c))	3,518,305	3,726,943
Less: provision for impairment of amounts due from joint ventures	(999)	(999)
	3,517,306	3,725,944
Total	6,473,872	5,570,130

The joint ventures held by the Group have share capital consisting solely of ordinary shares, which are held directly by the Group. All of the joint ventures are private companies with no quoted market price available for its shares.

As at 31 December 2018, there is no individually material joint venture to the Group.

Details of the Group's joint ventures as at 31 December 2018 are set out on page 205.

Set out below are the aggregate summarised financial information for the Group's share of interests in individually immaterial joint ventures which are accounted for using the equity method.

	2018 RMB'000	2017 RMB'000
Assets		
Non-current assets	160,916	129,728
Current assets	11,776,825	8,492,307
	11,937,741	8,622,035
Liabilities		
Non-current liabilities	(917,500)	(150,000)
Current liabilities	(8,063,675)	(6,627,849)
	(8,981,175)	(6,777,849)
Net assets	2,956,566	1,844,186
Revenue	793,466	876,041
Expenses	(713,969)	(771,464)
Profit before taxation	79,497	104,577
Taxation	(21,031)	(22,862)
Profit for the year	58,466	81,715

NOTES TO THE FINANCIAL STATEMENTS

22 INTERESTS IN JOINT VENTURES (Continued)

Certain cash and cash equivalents are held in China and are subject to local exchange control regulations. These local exchange control regulations provide for restrictions on exporting capital from country.

The Group's joint ventures did not have any significant capital commitments as at 31 December 2018 (2017: nil).

There are no significant contingent liabilities relating to the Group's interests in the joint ventures.

23 INTERESTS IN ASSOCIATED ENTITIES

	2018	2017
	RMB'000	RMB'000
Share of net assets	8,714,028	9,279,349
Deferred units (note)	1,554,904	1,749,484
Amounts due from associated entities	3,643,381	3,173,819
Interests in associated entities	13,912,313	14,202,652

Note: In connection with the disposal of Tower Top Development Limited ("Tower Top") to Yuexiu REIT, the Group will, on 31 December of each year, receive from Yuexiu REIT certain numbers of units of Yuexiu REIT starting from 31 December 2017. The number of units to be received each year will be limited to the maximum number of units that may be issued to the Group which will not trigger an obligation on the part of the Group to make a mandatory general offer under Rule 26 of the Takeovers Code for all units not already owned or agreed to be acquired by the Group at the relevant time.

Deferred units are part of the consideration of the business acquisition. The number of units to be issued to the Group was fixed at disposal date and is not subject to change across time. It is in substance the prepaid forward contract to deliver a fixed number of units for which the consideration has been received in advance. There is no cash option or derivatives elements in the deferred unit arrangement. This is a contractual arrangement to physically issue the units in accordance with the issuing schedule and no redemption option. The deferred units, once issued, will make the voting right/dividend right of the Group on Yuexiu REIT effective.

The aggregate summarised financial information for the Group's share of interests in its associated entities are as follows:

	2018	2017
	RMB'000	RMB'000
Revenue	1,386,470	1,749,610
Profit after tax	446,749	663,240
Assets	23,868,020	27,347,431
Liabilities	(15,153,992)	(18,068,082)
Net assets	8,714,028	9,279,349

Details of the Group's significant associated entities as at 31 December 2018 are set out on page 206.

NOTES TO THE FINANCIAL STATEMENTS

23 INTERESTS IN ASSOCIATED ENTITIES (Continued)

All the interests in associated entities held by the Group are unlisted except for an investment in a material associated entity, Yuexiu REIT with a carrying value of approximately RMB4,560 million (2017: RMB4,143 million) which is listed on the Stock Exchange of Hong Kong. The fair value of the interests in this associated entity amounted to approximately RMB4,935 million (2017: RMB4,390 million).

Set out below is the summarised financial information for the Group's material associated entity – Yuexiu REIT which is accounted for using the equity method.

	2018 RMB'000	2017 RMB'000
Investment properties	29,115,000	28,706,000
Other non-current assets (excluding investment properties)	4,525,423	4,505,208
Cash and cash equivalents	1,458,755	1,303,904
Other current assets (excluding cash and cash equivalents)	460,693	375,817
Total assets	35,559,871	34,890,929
Non-current liabilities, other than net assets attributable to unitholders	(16,326,630)	(13,091,440)
Current liabilities	(3,912,502)	(6,835,480)
Total liabilities, other than net assets attributable to unitholders	(20,239,132)	(19,926,920)
Net assets attributable to unitholders	(14,178,927)	(13,876,589)
Total liabilities	(34,418,059)	(33,803,509)
Net assets	1,141,812	1,087,420
Revenue	2,031,876	1,853,899
Fair value gain on investment properties	905,159	885,792
Depreciation and amortisation	(117,426)	(136,143)
Finance income	58,253	573,527
Finance expenses	(1,008,160)	(366,987)
Operating expenses	(921,657)	(973,584)
Others	488,989	(112,231)
Profit before income tax	1,437,034	1,724,273
Income tax expense	(458,369)	(277,544)
Post-tax profit before transactions with unitholders	978,665	1,446,729
Transactions with unitholders	(1,046,319)	(1,066,582)
Gain after income tax after transactions with unitholders	(67,654)	380,147
Other comprehensive income	(35,407)	82,238
Total comprehensive income	(103,061)	462,385
Dividends received	(278,860)	(290,550)

NOTES TO THE FINANCIAL STATEMENTS

23 INTERESTS IN ASSOCIATED ENTITIES (Continued)

Reconciliation of the summarised financial information presented to the carrying amount of the Group's interest in the material associated entity as follows:

	2018	2017
	RMB'000	RMB'000
Net assets attributable to unitholders as at 1 January	13,876,589	13,534,400
Issuance of units	110,780	111,106
Transactions with unitholders	1,046,319	1,066,582
Distributions paid to unitholders	(854,762)	(835,499)
Net assets at 31 December	14,178,926	13,876,589
Net assets attributable to deferred unitholder	(1,554,904)	(1,749,484)
Net assets attributable to unitholders	12,624,022	12,127,105
Interest in an associated entity	36.12%	34.16%
Carrying value	4,559,797	4,142,619

24 FINANCIAL ASSETS AT FVOCI/AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Financial assets	Available for sale
	at FVOCI	financial assets
	2018	2017
	RMB'000	RMB'000
Opening balance at 1 January	1,206,645	1,186,208
Addition	—	55
Disposal	—	(575)
Increase in fair value recognised in other comprehensive income	21,990	20,957
Closing balance at 31 December	1,228,635	1,206,645

NOTES TO THE FINANCIAL STATEMENTS

24 FINANCIAL ASSETS AT FVOCI/AVAILABLE-FOR-SALE FINANCIAL ASSETS
(Continued)

Financial assets at FVOCI (2017: AFS) represent unlisted securities in companies located in China without external credit ratings.

The fair value of the common shares held is derived using the Guideline Public Company Method approach. In applying this approach the Group has selected comparable public company peers in the same or a similar industry to provide objective evidence as to values at which investors are willing to buy and sell interest of companies in that industry, and conclude that by applying an appropriate valuation multiple that is a relevant performance measure for its investments.

Valuation multiples are derived from the reported earnings and the period end stock price of companies in the peer group. In applying the valuation multiples, the Price-to-Earnings multiple and Price-to-Book Value multiple have been concluded to be the relevant performance measures for its investments. The Group also adjusts the indicated fair value to give the effect of the discount for lack of marketability compared to the publicly traded peer group when it determines that the market participants would take this into account when pricing the investment. The discount for lack of marketability is quantified on the basis of relevant restricted stock studies and represents the most significant unobservable input applied to arrive at the fair value measurement of equity securities. The Group determines 40% discount for lack of marketability as the significant unobservable inputs.

If the discount for lack of marketability would be changed by +0.5% or -0.5%, the fair value of the investment and other comprehensive income would decrease or increase by approximately RMB10 million (2017: RMB10 million). Management believes that reasonable possible changes to other unobservable inputs would not result in a significant change in the estimated fair value.

25 PROPERTIES UNDER DEVELOPMENT

	2018	2017
	RMB'000	RMB'000
Properties under development	73,069,099	45,789,461

Properties under development are mainly located in China.

Refer to note 43 for information on assets pledged as security by the Group.

NOTES TO THE FINANCIAL STATEMENTS

26 PROPERTIES HELD FOR SALE

	2018	2017
	RMB'000	RMB'000
Properties held for sale	10,164,536	9,322,176

Properties held for sale are mainly located in China.

Refer to note 43 for information on assets pledged as security by the Group.

A provision for impairment of RMB86 million (2017: RMB319 million) is recognised as expense and included in “cost of sales” (note 6).

27 CONTRACT COSTS

The Group has recognised an asset in relation to costs to obtain the property sales contracts.

	31 December
	2018
	RMB'000
Assets recognised from costs incurred to obtain a contract at 31 December	334,697
Amortisation recognised as selling expenses during the year	(281,711)

Management expects the incremental costs, primarily sale commission, as a result of obtaining the property sale contracts are recoverable. The Group has capitalised the amounts and amortised when the related revenue are recognised. And there was no impairment loss in relation to the costs capitalised.

NOTES TO THE FINANCIAL STATEMENTS

28 TRADE RECEIVABLES

	2018	2017
	RMB'000	RMB'000
Trade receivables	59,721	54,120
Loss allowance	(8,805)	(8,805)
	50,916	45,315

Due to the short-term nature of the current receivable, their carrying amount is considered to be the same as their fair value.

As at 31 December 2018 and 2017, the ageing analysis of the trade receivables from the invoice date is as follows:

	2018	2017
	RMB'000	RMB'000
0 - 30 days	20,216	13,387
31 - 180 days	11,393	25,974
181 - 365 days	13,623	1,461
Over 1 year	14,489	13,298
	59,721	54,120

The Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. See note 3.1(b) for further information about the Group's credit risk analysis for trade receivables.

The Group's trade receivables are denominated in RMB.

29 NON-CURRENT ASSETS HELD-FOR-SALE

In December 2017, the Group entered into a placement agreement with a placing agent, pursuant to which the Group agreed to sell, and the placing agent agreed subject to certain conditions to procure places to purchase, failing which the placing agent will purchase, 77,000,000 units, equivalent to 2.55% of equity interest in Yuexiu REIT for a purchase price of HKD4.89 per unit. The transaction has been completed in 2018.

30 CHARGED BANK DEPOSITS

In accordance with relevant documents issued by local State-Owned Land and Resource Bureau, certain property development companies of the Group are required to place in designated bank accounts certain amount of pre-sale proceeds of properties as guarantee deposits for constructions of related properties. The deposits can only be used for purchase of construction materials and settlement of construction fees of the relevant property projects. Such guarantee deposits will only be released after completion of related pre-sold properties or issuance of the real estate ownership certificate, whichever is the earlier.

NOTES TO THE FINANCIAL STATEMENTS

31 CASH AND CASH EQUIVALENTS

	2018 RMB'000	2017 RMB'000
Cash at bank	21,915,107	16,416,972
Short-term bank deposits	75,405	238,327
	21,990,512	16,655,299

Cash and cash equivalents are denominated in the following currencies:

	2018 RMB'000	2017 RMB'000
HKD	570,046	1,142,812
RMB	21,069,928	15,310,725
USD	343,059	194,443
Others	7,479	7,319
	21,990,512	16,655,299

The Group's RMB balances are placed with banks in China. The conversion of these RMB denominated balances into foreign currencies in China is subject to rules and regulations of foreign exchange control promulgated by the Chinese Government.

The average effective interest rate on short-term bank deposits was 1 percent (2017: 1 percent).

The Group's bank deposits are mainly placed with major state-owned financial institutions.

NOTES TO THE FINANCIAL STATEMENTS

32 TRADE AND NOTE PAYABLES

	2018 RMB'000	2017 RMB'000
Trade payables	260,055	110,326
Note payables	1,147,522	47,549
	1,407,577	157,875

The fair values of trade and note payables approximate their carrying amounts.

The ageing analysis of the trade and note payables is as follows:

	2018 RMB'000	2017 RMB'000
0 - 30 days	560,463	86,433
31 - 90 days	332,645	40,562
91 - 180 days	469,212	14,288
181 - 365 days	21,037	8,556
1 - 2 years	16,579	4,340
Over 2 years	7,641	3,696
	1,407,577	157,875

Majority of the Group's trade and note payables are denominated in RMB.

NOTES TO THE FINANCIAL STATEMENTS

33 CONTRACT LIABILITIES AND ADVANCE RECEIPTS FROM CUSTOMERS

	31 December 2018 RMB'000
Contract liabilities	31,637,956
	31 December 2017 RMB'000
Advance receipts from customers	17,633,142

- (a) The Group receives payments from customers based on billing schedules as established in the property sale contracts. Payments are usually received in advance of the performance under the contracts which are mainly from property development and sales. The increase in contract liabilities was mainly attributable to the increase in the Group's contracted sales.
- (b) Revenue recognised that was included in the contract liabilities balance at 1 January 2018 is approximately RMB11,083 million in 2018.
- (c) For property management services contracts, the Group recognised revenue equal to the right to invoice amount when it corresponds directly with the value to the customer of the Group's performance obligations for these type of contracts. The majority of the property management service contracts do not have a fixed term.
- (d) For other contracts, as a practical expedient, the Group need not disclose transaction price allocated to the remaining performance obligation as the performance obligation is part of a contract that has an original expected duration of one year or less.

34 OTHER PAYABLES AND ACCRUED CHARGES

	2018 RMB'000	2017 RMB'000
Accrual for construction related costs	10,763,974	8,997,724
Accrued employee benefits costs	790,887	573,097
Amounts due to related parties (note 45 (c))	6,410,487	4,689,187
Other payables	11,406,081	7,862,171
	29,371,429	22,122,179

Majority of the Group's other payables and accrued charges are denominated in RMB.

NOTES TO THE FINANCIAL STATEMENTS

35 BORROWINGS

	2018 RMB'000	2017 RMB'000
Non-current		
Long-term bank borrowings		
– Secured	10,855,895	11,282,160
– Unsecured	9,623,606	14,838,102
Other borrowings (a)		
– Secured	920,160	—
– Unsecured	26,220,249	13,127,034
Obligations under finance leases	50	166
	47,619,960	39,247,462
Current		
Bank overdrafts	57	51
Short-term bank borrowings		
– Unsecured	383,527	550,773
Current portion of long-term bank borrowings		
– Secured	2,204,200	1,014,750
– Unsecured	100	2,812,285
Other borrowings (a)		
– Secured	300,000	—
– Unsecured	2,898,202	4,083,760
Obligations under finance leases	59	7
	5,786,145	8,461,626
Total borrowings	53,406,105	47,709,088

(a) Other borrowings

(i) PRC corporate bonds

In 2016, the Group issued aggregated nominal value of RMB8,000 million corporate bonds with interest rates ranging from 2.95% to 3.19% per annum and with maturity between 3 years to 7 years. The net proceed, after deducting the issuance costs, amounted to RMB7,968 million.

In 2018, the Group issued aggregated nominal value of RMB1,500 million corporate bonds with interest rates ranging from 4.24% to 4.25% per annum and with maturity between 3 years to 5 years. The net proceed, after deducting the issuance costs, amounted to approximately RMB1,494 million.

Guangzhou Yuexiu Holdings Limited (“GZYX”), the ultimate holding company, provides guarantee for above corporate bond (note 45(e)).

NOTES TO THE FINANCIAL STATEMENTS

35 BORROWINGS (Continued)

(a) Other borrowings (Continued)

(ii) Medium term notes

In 2013, the Group issued medium-term notes of USD500 million with an interest rate of 4.50% per annum and with maturity in 2023.

In 2014, the Group issued medium term notes of HKD2,300 million with an interest rate of 6.10% per annum and with maturity in 2029.

In 2018, the Group borrowed a loan of RMB1,111 million with a 9-year maturity. The interest rates are ranging from 4.98% to 5.50% per annum.

In 2018, the Group issued medium term notes of USD1,200 million with interest rates of 4.875% to 5.375% per annum and with maturity between 2021 to 2023. The net proceed after deducting the issuance costs, amounted to USD1,191 million.

The maturity of borrowings is as follows:

	Bank borrowings and overdrafts		Other loans	
	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
Within one year	2,587,884	4,377,859	3,198,261	4,083,767
In the second year	6,805,171	10,719,368	1,656,000	997,914
In the third to fifth year	11,096,030	12,504,894	20,284,116	6,480,284
Over five years	2,578,300	2,896,000	5,200,343	5,649,002
	23,067,385	30,498,121	30,338,720	17,210,967

The effective interest rates at the balance sheet date were as follows:

	2018			2017		
	HKD	RMB	USD	HKD	RMB	USD
Bank borrowings	2.62%	5.57%	—	2.70%	4.16%	—
Other borrowings	6.27%	4.37%	4.83%	7.07%	3.42%	4.33%
Bank overdrafts	3.48%	—	—	3.48%	—	—

The carrying amounts of the borrowings are denominated in the following currencies:

	2018 RMB'000	2017 RMB'000
HKD	7,144,654	7,801,021
RMB	34,657,300	36,659,925
USD	11,604,151	3,248,142
	53,406,105	47,709,088

The fair values of borrowings approximate their carrying amounts.

NOTES TO THE FINANCIAL STATEMENTS

36 SHARE CAPITAL

	Number of shares (‘000)	Share capital RMB’000	Total RMB’000
At 31 December 2017	12,401,307	12,759,402	12,759,402
	Number of shares (‘000)	Share capital RMB’000	Total RMB’000
At 31 December 2018	12,401,307	12,759,402	12,759,402

Ordinary shares have no par value.

37 SHARES HELD UNDER SHARE AWARD SCHEME**Adoption of the share award scheme**

The share award scheme for employee of the Group was adopted by the Board of the Company on 17 March 2017 (the “Adoption Date”). The share award scheme shall be valid and effective for nine years commencing from the Adoption Date (the “Scheme Period”), subject to any early termination as may be determined by the Board.

Scheme Limit

The total number of shares awarded under the share award scheme shall not exceed 3% (the “Scheme Limit”) of the number of shares in issue as at the Adoption Date, and the Board may from time to time “refresh” the Scheme Limit provided that the total number of scheme shares awarded and to be awarded must not exceed 5% of the number of shares in issue as at the date of the resolution to approve the “refreshed” limit.

Operation

Pursuant to the scheme rules of the share award scheme (the “Scheme Rules”), the Board of the Company may from time to time at its absolute discretion select any employee to be a selected senior management participant and determine and allocate the number of shares to be granted to a selected participant pursuant to an award in accordance with the Scheme Rules. The Company has entered into a trust deed with the trustee (the “Trustee”) for implementing the share award scheme. The Group will pay to the Trustee the purchase monies for the purchase of shares for the purpose of the share award scheme, and the Trustee shall apply the full amount of such purchase monies received from the Group towards the purchase of the maximum number of shares from the market and shall hold such shares on trust during the Scheme Period.

NOTES TO THE FINANCIAL STATEMENTS

37 SHARES HELD UNDER SHARE AWARD SCHEME (Continued)

	2018 Shares ('000)	2017 Shares ('000)	2018 RMB'000	2017 RMB'000
Shares held under share award scheme	(44,283)	(17,192)	(55,220)	(21,301)

These shares are acquired from the market by the Group's Employee Share Trust under the share award scheme.

	Number of shares ('000)	RMB'000
Opening balance 1 January 2017	—	—
Acquisition of shares by the Trust	(17,192)	(21,301)
Balance 31 December 2017	(17,192)	(21,301)
Acquisition of shares by the Trust	(27,091)	(33,919)
Balance 31 December 2018	(44,283)	(55,220)

The weighted average price of awarded shares held during the year ended 31 December 2018 was approximately RMB1.25 per share (2017: RMB1.24 per share).

As at 31 December 2018, the total number of issued ordinary shares of the Company included 44,283,335 shares held under the share award scheme (31 December 2017: 17,192,473 shares), and no shares was granted to the relevant selected participant during the year.

NOTES TO THE FINANCIAL STATEMENTS

38 RESERVES

	Statutory reserves (note (a))	Exchange fluctuation reserve	Available- for-sale financial assets fair value reserve (note c)	Financial assets at FVOCI (note b)	Hedging reserve	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2017	213,964	(88,114)	731,529	–	–	18,790,158	19,647,537
Change in accounting policy	–	–	(731,529)	731,529	–	154,727	154,727
Restated as at 1 January 2018	213,964	(88,114)	–	731,529	–	18,944,885	19,802,264
Currency translation differences	–	(415,210)	–	–	–	–	(415,210)
Change in fair value of equity investment at FVOCI							
– gross	–	–	–	20,891	–	–	20,891
– tax	–	–	–	(5,223)	–	–	(5,223)
– effect of withholding tax	–	–	–	(1,332)	–	–	(1,332)
Losses on cash flow hedges	–	–	–	–	(834)	–	(834)
Profit attributable to shareholders	–	–	–	–	–	2,727,885	2,727,885
Dividends paid	–	–	–	–	–	(1,006,056)	(1,006,056)
At 31 December 2018	213,964	(503,324)	–	745,865	(834)	20,666,714	21,122,385
Representing:							
2018 final dividend proposed						545,657	
Others						20,121,057	
						20,666,714	

NOTES TO THE FINANCIAL STATEMENTS

38 RESERVES (Continued)

	Statutory reserves (note (a)) RMB'000	Exchange fluctuation reserve RMB'000	Available- for-sale financial assets fair value reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2017	212,556	(363,867)	717,866	17,298,029	17,864,584
Currency translation differences	—	275,753	—	—	275,753
Change in fair value of available-for-sale financial assets					
– gross	—	—	19,909	—	19,909
– tax	—	—	(4,977)	—	(4,977)
– effect of withholding tax	—	—	(1,269)	—	(1,269)
Profit attributable to shareholders	—	—	—	2,260,242	2,260,242
Dividends paid	—	—	—	(766,705)	(766,705)
Transfer to statutory reserves	1,408	—	—	(1,408)	—
At 31 December 2017	<u>213,964</u>	<u>(88,114)</u>	<u>731,529</u>	<u>18,790,158</u>	<u>19,647,537</u>
Representing:					
2017 final dividend proposed				520,855	
Others				<u>18,269,303</u>	
				<u>18,790,158</u>	

Note:

(a) Statutory reserves

Statutory reserves represent enterprise expansion and general reserve funds set up by the subsidiaries, joint ventures and associated entities in China. As stipulated by regulations in China, the Company's subsidiaries, joint ventures and associated entities established and operated in China are required to appropriate a portion of their after-tax profits (after offsetting prior year losses) to the enterprise expansion and general reserve funds, at rates determined by their respective boards of directors. According to the Regulations for the Implementation of the Law of The People's Republic of China on Joint Ventures Using Chinese and Foreign Investment, upon approval, the general reserve funds may be used for making up losses and increasing capital while the enterprise expansion funds may be used for increasing capital only.

(b) Financial asset at FVOCI

The Group has elected to recognise changes in the fair value of certain investments in equity securities in OCI, as explained in note 2.11. These changes are accumulated within the FVOCI reserve within equity. The Group transfers amounts from this reserve to retained earnings when the relevant equity securities are derecognised.

(c) Available-for-sale financial assets-until 31 December 2017

Changes in the fair value and exchange differences arising on translation of investments that were classified as available-for-sale financial assets (eg equities), were recognised in other comprehensive income and accumulated in a separate reserve within equity. Amounts were reclassified to profit or loss when the associated assets are sold or impaired, see accounting policy note 2.11 for details.

NOTES TO THE FINANCIAL STATEMENTS

39 DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using the applicable income tax rate. The majority of the deferred tax assets and liabilities are expected to be recovered after more than 12 months.

The gross movements on the deferred tax account are as follows:

	2018 RMB'000	2017 RMB'000
Beginning of the year	4,357,009	4,256,745
Charged to profit or loss during the year (note 10)	400,491	134,715
Disposal of subsidiaries (note 20)	(204,260)	(38,055)
Acquisition of subsidiaries (note 19)	716,995	—
Deferred taxation charged to equity (note 10)	6,829	6,508
Payment	(167,132)	—
Exchange differences	2,058	(2,904)
End of the year	5,111,990	4,357,009

The movements in deferred tax assets (prior to offsetting of balances within the same taxation jurisdiction) during the year are as follows:

	Different bases in reporting expenses with tax authorities RMB'000	Provision for impairment of properties RMB'000	Tax losses RMB'000	Others RMB'000	Total RMB'000
At 1 January 2018	45,687	42,377	246,674	1,021	335,759
Acquisition of subsidiaries (note 19)	84,349	—	—	—	84,349
Charged/(credited) to profit or loss during the year	116,654	21,398	(49,971)	—	88,081
At 31 December 2018	246,690	63,775	196,703	1,021	508,189
At 1 January 2017	45,687	18,608	169,703	1,021	235,019
Charged to profit or loss during the year	—	23,769	76,971	—	100,740
At 31 December 2017	45,687	42,377	246,674	1,021	335,759

NOTES TO THE FINANCIAL STATEMENTS

39 DEFERRED TAXATION (Continued)

The movements in deferred tax liabilities (prior to offsetting of balances within the same jurisdiction), during the year are as follows:

	Revaluation of properties RMB'000	Accelerated depreciation RMB'000	Revaluation of investments RMB'000	Different bases in reporting revenue with tax authorities RMB'000	Others RMB'000	Undistributed profits of subsidiaries, joint ventures and associated entities RMB'000	Total RMB'000
At 1 January 2018	2,850,366	53,919	282,148	4,241	9,439	1,492,655	4,692,768
Exchange differences	2,058	—	—	—	—	—	2,058
Charged/(credited) to profit or loss during the year	237,109	(53,919)	—	(4,241)	(9,439)	319,063	488,572
Credited to reserves	—	—	5,497	—	—	1,332	6,829
Disposal of subsidiaries (note 20)	(204,260)	—	—	—	—	—	(204,260)
Acquisition of subsidiaries (note 19)	801,344	—	—	—	—	—	801,344
Payment	—	—	—	—	—	(167,132)	(167,132)
At 31 December 2018	3,686,617	—	287,645	—	—	1,645,917	5,620,179
At 1 January 2017	2,857,074	67,490	277,171	4,241	9,459	1,276,329	4,491,764
Exchange differences	(2,904)	—	—	—	—	—	(2,904)
Charged/(credited) to profit or loss during the year	16,936	(13,571)	—	—	(20)	232,110	235,455
Credited to reserves	—	—	4,977	—	—	1,531	6,508
Disposal of subsidiaries	(20,740)	—	—	—	—	(17,315)	(38,055)
At 31 December 2017	2,850,366	53,919	282,148	4,241	9,439	1,492,655	4,692,768

NOTES TO THE FINANCIAL STATEMENTS

39 DEFERRED TAXATION (Continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown on the consolidated balance sheet:

	2018 RMB'000	2017 RMB'000
Deferred tax assets		
– China enterprise income tax	492,137	294,853
	492,137	294,853
Deferred tax liabilities		
– Hong Kong profits tax	26,842	23,543
– China enterprise income tax	4,361,441	3,504,483
– China land appreciation tax	1,215,844	1,123,836
	5,604,127	4,651,862

Deferred tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefits through future taxation profits is probable. As at 31 December 2018, the Group had unrecognised deferred tax benefits of approximately RMB507 million (2017: RMB449 million) in respect of tax losses of approximately RMB1,161 million (2017: RMB2,474 million). Tax losses amounting to RMB944 million (2017: RMB930 million) will expire at various dates up to and including 2023 (2017: 2022). The remaining tax losses have no expiry date.

40 NON-CANCELLABLE OPERATING LEASES

At 31 December 2018, the Group had future minimum rental payments receivable under certain non-cancellable leases as follows:

	2018 RMB'000	2017 RMB'000
Not later than one year	388,138	394,018
Later than one year and not later than five years	741,384	934,369
Later than five years	185,839	165,224
	1,315,361	1,493,611

The Group had future aggregate minimum lease payments commitments under non-cancellable operating leases in respect of land and buildings as follows:

	2018 RMB'000	2017 RMB'000
Not later than one year	22,051	47,574
Later than one year and not later than five years	50,465	46,487
	72,516	94,061

NOTES TO THE FINANCIAL STATEMENTS

41 CAPITAL COMMITMENTS

	2018 RMB'000	2017 RMB'000
Capital commitments in respect of property, plant and equipment:		
Contracted but not provided for	486,092	719,610
Authorised but not contracted for	311,906	553,797
	797,998	1,273,407

42 GUARANTEES

	2018 RMB'000	2017 RMB'000
Guarantees for mortgage facilities granted to certain property purchasers of the Group's properties (note (a))	13,692,282	8,426,996
Guarantee for banking and loan facility granted to associated entities (note (b))	779,974	—
Guarantees for banking and loan facilities granted to joint ventures (note (b))	1,350,000	450,000
	15,822,256	8,876,996

Note:

- (a) The Group provided guarantees in respect of mortgage facilities granted by certain banks relating to the mortgage loans arranged for certain purchasers of the Group's properties. Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, the Group is responsible for repaying the outstanding mortgage principals together with accrued interest and penalty owed by the defaulted purchasers to the banks and the Group is entitled to take over the legal title and possession of the related properties. Such guarantees shall terminate upon issuance of the relevant property ownership certificates.
- (b) As at 31 December 2018, certain subsidiaries of the Group provided guarantee up to a limit of approximately RMB2,130 million (31 December 2017: RMB 450 million) in respect of loans borrowed by joint ventures and associated entities of the Group, among which guarantee of approximately RMB1,198 million (31 December 2017: RMB49 million) was utilised and guarantee of approximately RMB932 million (31 December 2017: RMB401 million) was not utilised yet.

43 SECURITIES FOR BANKING FACILITIES

At 31 December 2018, certain banking facilities and loans granted to the Group were secured by:

- (a) mortgages of certain of the Group's properties under development, properties held for sale, investment properties and property, plant and equipment with aggregate carrying values of approximately RMB29,365 million (2017: RMB23,504 million), RMB1,435 million (2017: RMB1,237 million), RMB6,650 million (2017: RMB6,248 million) and RMB639 million (2017: RMB595 million) respectively and
- (b) mortgages of certain of the Group's land use rights with an aggregate carrying value of RMB7 million (2017: RMB7 million).

NOTES TO THE FINANCIAL STATEMENTS

44 LIABILITIES FROM FINANCING ACTIVITIES

	Borrowings due within 1 year (excluing overdraft)			Borrowings due after 1 year	Other payables	Total
	RMB'000	RMB'000	RMB'000			
Liabilities from financing activities as at 31 December 2017	(8,461,575)	(39,247,462)	(9,589,067)		(57,298,104)	
Cash flows	7,620,583	(1,442,042)	(3,493,146)		2,685,395	
Foreign exchange adjustments	91,159	(1,208,917)	—		(1,117,758)	
Transfer between borrowings due within 1 year and after 1 year	(3,517,852)	3,517,852	—		—	
Declaration of dividends	—	—	(1,006,056)		(1,006,056)	
Acquisition of subsidiaries	(1,517,000)	(9,137,255)	544,601		(10,109,654)	
Other changes (a)	(1,403)	(102,136)	(540,080)		(643,619)	
Liabilities from financing activities as at 31 December 2018	(5,786,088)	(47,619,960)	(14,083,748)		(67,489,796)	

	Borrowings due within 1 year (excluing overdraft)			Borrowings due after 1 year	Other payables	Total
	RMB'000	RMB'000	RMB'000			
Liabilities from financing activities as at 31 December 2016	(6,778,287)	(33,514,935)	(14,348,841)		(54,642,063)	
Cash flows	(356,597)	(7,460,725)	5,109,237		(2,708,085)	
Foreign exchange adjustments	44,118	359,599	—		403,717	
Transfer between borrowings due within 1 year and after 1 year	(1,370,809)	1,370,809	—		—	
Other changes (a)	—	(2,210)	(349,463)		(351,673)	
Liabilities from financing activities as at 31 December 2017	(8,461,575)	(39,247,462)	(9,589,067)		(57,298,104)	

Note:

- (a) Other changes include non-cash movements and interest payments which are presented as operating cash flows in the statement of cash flows.

NOTES TO THE FINANCIAL STATEMENTS

45 SIGNIFICANT RELATED PARTY TRANSACTIONS

(a) Related parties

The Company's ultimate holding company is Guangzhou Yuexiu Holding Limited. The table below summarises the names of related parties, with whom the Group has significant transactions during the year, and their relationship with the Company as at 31 December 2018:

Significant related parties	Relationship with the Company
GZYX	Ultimate holding company
Yue Xiu Enterprises (Holdings) Limited ("YXE")	Intermediate holding company
Yuexiu REIT	An associated entity
Guangzhou Jiachuang	An associated entity
Chong Hing Bank Limited ("CHB")	A fellow subsidiary
Guangzhou Yuexiu Financial Leasing Co., Ltd ("GYFL")	A fellow subsidiary
Guangzhou Securities Company Limited ("GSCL")	A fellow subsidiary
Guangzhou Yuexiu Development Group Limited ("GYD")	A fellow subsidiary
Guangzhou City Construction & Development Holdings Co.,Ltd. ("GCCD")	A fellow subsidiary
廣州雅城房地產開發有限公司 ("雅城")	A fellow subsidiary
GHPD	Note
濟南鵬遠置業有限公司 ("濟南鵬遠")	A joint venture
廣州資產管理有限公司 ("資產管理")	An associated entity of a fellow subsidiary
金鷹基金管理有限公司 ("金鷹")	An associated entity of a fellow subsidiary

Note: GHPD was an associated company and become a subsidiary since 6 June 2018.

NOTES TO THE FINANCIAL STATEMENTS

45 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

(b) Transactions with related parties (Continued)

Save as disclosed in note 19 and note 20 in these financial statements, the Group had the following transactions with related parties during the year:

	2018 RMB'000	2017 RMB'000
(I) Transactions with YXE		
Rental expenses and property management fees	(2,390)	(3,215)
Interest expense (note 9)	(128,785)	(108,997)
(II) Transactions with Yuexiu REIT		
Gain on disposal of a subsidiary (note 20(b))	48,356	422,885
Tenancy service fees income	24,547	19,025
Rental expenses	(75,941)	(57,791)
Interest expense (note 9)	(23,000)	(20,742)
Interest income (note 8)	18,354	—
Fair value loss on support arrangement liabilities (note 7)	(22,736)	—
(III) Transaction with CHB		
Deposit interest income	14,065	10,445
Rental income	11,177	7,641
Interest expenses (note 9)	(1,982)	—
Loss on foreign exchange transactions	(4,250)	(4,655)
Proceeds from management service	2,307	1,611
Gain on foreign currency forward	29,218	—
(IV) Transaction with GYFL		
Rental income	10,136	3,642
(V) Transaction with GHPD		
Interest income (note 8)	38,954	98,183
(VI) Transaction with 資產管理		
Rental income	6,369	1,470
(VII) Transaction with 金鷹		
Rental income	9,593	3,382
(VIII) Transaction with GSCL		
Rental income	1,914	279
(IX) Transaction with GCCD		
Sales of investment properties	30,441	—

NOTES TO THE FINANCIAL STATEMENTS

45 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

(b) Transactions with related parties (Continued)

	2018 RMB'000	2017 RMB'000
(X) Transaction with Guangzhou Jiachuang Disposal of a subsidiary (note 20(a))	2,697,544	—
(XI) Transaction with 濟南鵬遠 Interest income (note 8)	2,424	—
(XII) Transaction with GYD Sales of properties	—	426,674
(XIII) Transaction with 雅城 Gain on disposal of property, plant and equipment and land use right	—	98,336

The price of above transactions were determined in accordance with the terms agreed by the relevant contracting parties.

(c) Balances with related parties

	Note	2018 RMB'000	2017 RMB'000
Amount due to an intermediate holding company	(i), (ii)	(1,500,000)	(8)
Amounts due from associated entities	(iv), (vi)	9,880,716	5,992,792
Amounts due to associated entities	(ii), (vii)	(1,270,717)	(2,458,010)
Amounts due from joint ventures	(iii), (v), (vi)	3,577,445	3,737,365
Amounts due to joint ventures	(i), (ii)	(3,318,814)	(1,795,828)
Amounts due from related companies	(i), (ii)	38,282	38,282
Amounts due to related companies	(i), (ii)	(34,422)	(40,568)
Amounts due to fellow subsidiaries	(i), (ii)	(286,534)	(394,773)
Cash at bank from a fellow subsidiary	(viii)	924,875	943,692
Bank borrowing from a fellow subsidiary	(ix)	83,526	—
Other borrowings from an intermediate holding company	(x)	—	(4,083,760)

Except for the amounts due from associated entities which are denominated in HKD, all other related party balances are denominated in RMB.

NOTES TO THE FINANCIAL STATEMENTS

45 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)**(c) Balances with related parties (Continued)**

Note:

- (i) These balances are unsecured, interest free and repayable or receivable on demand.
- (ii) These balances are included in other receivables, prepayments and deposits or other payables and accrued charges, as appropriate.
- (iii) The balance is included in interests in joint ventures except for an amount of RMB60,139,000 (31 December 2017: RMB 11,422,000) which is included in other receivables, prepayments and deposits.
- (iv) The balance is included in interests in associated entities except for an amount of approximately RMB6,237,335,000 (31 December 2017: RMB 2,818,973,000) which is included in other receivables, prepayments and deposits.
- (v) The balances are not in default or impaired, except for a provision for impairment losses of approximately RMB999,000 (31 December 2017: RMB999,000) which is made for an amount due from a joint venture.
- (vi) Except for an amount of approximately RMB103,319,000 (31 December 2017: RMB 2,394,620,000) which is unsecured and interest bearing at 4.75% per annum (2017: 6.18% per annum), the remaining balances are unsecured, interest free and receivable on demand.
- (vii) Except for an amount of approximately RMB238,915,000 (31 December 2017: RMB266,357,000) which is unsecured and interest bearing at 9% per annum (2017: 9% per annum), the remaining balances are unsecured, interest free and repayable on demand.
- (viii) These balances are deposits maintained with a fellow subsidiary on normal commercial terms.
- (ix) These balances are unsecured, interest bearing at 5.22% per annum and will be repaid in 2019.
- (x) The borrowing has been repaid and there is no remaining balance as at 31 December 2018. (31 December 2017: RMB4,083,760,000 with interest bearing of 4.57% per annum),.

(d) Key management compensation

The aggregate amounts of emoluments paid or payable to key management of the Group are as follows:

	2018	2017
	RMB'000	RMB'000
Fees	931	825
Other emoluments:		
Basis salaries, housing allowances, other allowances and benefits in kind	29,635	29,115
Pension costs	224	586
	30,790	30,526

NOTES TO THE FINANCIAL STATEMENTS

45 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)**(e) Received guarantees**

- (i) GZYX provides guarantee for the bond of Guangzhou City Construction & Development Co. Ltd (“GZCC”), a subsidiary of the Group, amounted to RMB9,477 million as at 31 December 2018 (31 December 2017: RMB7,976 million).
- (ii) GZYX provides guarantee for bank loan of Kangjing Company, a subsidiary of the Group, amounted to RMB1,155 million as at 31 December 2018 (31 December 2017: nil).
- (iii) GZYX provides guarantee for bank loan of Suzhou Shenyi Property Development Co., Ltd, a subsidiary of the Group, amounted to RMB300 million as at 31 December 2018 (31 December 2017: nil).
- (iv) GCCD provides guarantee for bank loan of Guangzhou City Construction & Development Group Nansha Co. Ltd, a subsidiary of the Group, amounted to RMB136 million as at 31 December 2018 (31 December 2017: nil).

(f) Provision of guarantees

The Group provides guarantee for the borrowing of associated entities and joint ventures, see note 42.

46 SUBSEQUENT EVENT

On 27 February 2019, the Company entered into a conditional subscription agreement with the Guangzhou Metro Investment Finance (HK) Limited (a wholly-owned subsidiary of Guangzhou Metro Group Co., Ltd (“Guangzhou Metro”)) relating to the proposed subscription by the GZ Metro Subscriber of 3,080,973,807 subscription shares at the subscription price of HK\$2.00 per subscription share for a total consideration of HK\$6,162 million. The subscription shares represent approximately 19.9% of the total number of issued shares as enlarged by the allotment and the issue of the subscription shares.

Simultaneously, with the entering into of the subscription agreement above, Guangzhou Yunhu Real Estate Development Co., Ltd. (the “Purchaser”) (an indirectly non-wholly owned subsidiary of the Company) entered into a set of acquisitions agreements with GZYX, the wholly owned subsidiary of GZYX and Guangzhou Metro respectively, pursuant to which the Purchaser has conditionally agreed to acquire directly or indirectly, an aggregate of 86% of the equity interest in Guangzhou City Pinxiu Property Development Company Limited together with the relevant loan interests belong to by GZYX and Guangzhou Metro. The total consideration for the acquisitions, not considering the subscription above, was estimated to be approximately RMB14,108 million in aggregate. The completion of the acquisitions subjected to the satisfaction of the conditions that the completion of the subscription having taken place.

NOTES TO THE FINANCIAL STATEMENTS

47 COMPANY BALANCE SHEET

	2018 RMB'000	2017 RMB'000
ASSETS		
Non-current assets		
Property, plant and equipment	5,284	5,887
Investment properties	11,566	10,407
Interests in subsidiaries	33,882,116	31,026,854
Interest in associated entities	19,253	19,234
Derivative financial assets	9,069	—
	33,927,288	31,062,382
Current assets		
Other receivables, prepayments and deposits	2,095	3,095
Dividend receivables	4,572,831	2,687,599
Cash and cash equivalents	742,266	737,585
	5,317,192	3,428,279
LIABILITIES		
Current liabilities		
Amounts due to subsidiaries	4,293,458	2,667,339
Amounts due to an intermediate holding company	1,499,992	—
Other payables and accrued charges	218,377	197,787
Borrowings	131,489	4,434,540
	6,143,316	7,299,666
Net current liabilities	(826,124)	(3,871,387)
Total assets less current liabilities	33,101,164	27,190,995

NOTES TO THE FINANCIAL STATEMENTS

47 COMPANY BALANCE SHEET (Continued)

	2018 RMB'000	2017 RMB'000
Non-current liabilities		
Amount due to a subsidiary	17,462,961	9,085,057
Borrowings	1,972,123	4,324,386
	19,435,084	13,409,443
Net assets	13,666,080	13,781,552
EQUITY		
Capital and reserves attributable to equity holders of the Company		
Share capital	12,759,402	12,759,402
Shares held under share award scheme	(55,220)	(21,301)
Reserves (note)	961,898	1,043,451
Total equity	13,666,080	13,781,552

On behalf of the Board

Lin Zhaoyuan
Director

Lin Feng
Director

NOTES TO THE FINANCIAL STATEMENTS

47 COMPANY BALANCE SHEET (Continued)

Note:

Reserves

	Hedging	Retained earnings RMB'000	Total RMB'000
At 1 January 2018	—	1,043,451	1,043,451
Profit for the year	—	925,337	925,337
Losses on cash flow hedges	(834)	—	(834)
Dividends paid	—	(1,006,056)	(1,006,056)
At 31 December 2018	(834)	962,732	961,898

	Retained earnings RMB'000	Total RMB'000
At 1 January 2017	922,756	922,756
Profit for the year	887,400	887,400
Dividends paid	(766,705)	(766,705)
At 31 December 2017	1,043,451	1,043,451

ANNEX A — CLEARANCE AND SETTLEMENT

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of Euroclear, Clearstream or the CMU (collectively, the “Clearing Systems”) currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Issuer and the Guarantor believe to be reliable, but none of the Issuer, the Guarantor, the Arrangers, the Dealers, the Trustee or the Agents takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. Neither the Issuer or the Guarantor nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to, or payments made on account of, such beneficial ownership interests.

Bearer Notes

The Issuer may make applications to Euroclear and Clearstream for acceptance in their respective book-entry systems in respect of any Series of Bearer Notes. The Issuer may also apply to have Bearer Notes accepted for clearance through the CMU. In respect of Bearer Notes, a temporary Global Note and/or a permanent Global Note will be deposited with a common depository for Euroclear and Clearstream or a sub-custodian for the CMU. Transfers of interests in a temporary Global Note or a permanent Global Note will be made in accordance with the normal market debt securities operating procedures of the CMU, Euroclear and Clearstream. Each Global Note will have an International Securities Identification Number (“ISIN”) and a Common Code or a CMU Instrument Number, as the case may be. Investors in Notes of such Series may hold their interests in a Global Note through Euroclear or Clearstream or the CMU, as the case may be.

Registered Notes

The Issuer may make applications to Euroclear and Clearstream for acceptance in their respective book-entry systems in respect of the Notes to be represented by a Global Certificate. The Issuer may also apply to have Notes represented by a Global Certificate accepted for clearance through the CMU. Each Global Certificate will have an ISIN and a Common Code or a CMU Instrument Number, as the case may be. Investors in Notes of such Series may hold their interests in a Global Certificate only through Euroclear or Clearstream or the CMU, as the case may be.

Individual Certificates

Registration of title to Registered Notes in a name other than a depository or its nominee for Euroclear and Clearstream or the CMU will be permitted only in the circumstances set forth in “**Summary of Provisions Relating to the Notes while in Global Form — Exchange**”. In such circumstances, the Issuer will cause sufficient individual Certificates to be executed and delivered to the Registrar for completion, authentication and despatch to the relevant Noteholder(s). A person having an interest in a Global Certificate must provide the Registrar with a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such individual Certificates.

The Clearing Systems

The relevant Pricing Supplement will specify the Clearing System(s) applicable for each Series.

Euroclear and Clearstream

Euroclear and Clearstream each holds securities for participating organisations and facilitates the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide to their respective participants, among other things, services for safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream participants are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to Euroclear or Clearstream is also available to others, such as banks, brokers, dealers and trust companies which clear through or maintain a custodial relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Distributions of principal and interest with respect to book-entry interests in the Notes held through Euroclear or Clearstream will be credited, to the extent received by any Paying Agent, to the cash accounts of Euroclear or Clearstream participants in accordance with the relevant Clearing System's rules and procedures.

CMU

The CMU is a central depository service provided by the Central Moneymarkets Unit of the Hong Kong Monetary Authority (the "HKMA") for the safe custody and electronic trading between the members of this service ("CMU Members") of capital markets instruments ("CMU Notes") which are specified in the CMU Reference Manual as capable of being held within the CMU.

The CMU is only available to CMU Notes issued by a CMU Member or by a person for whom a CMU Member acts as agent for the purposes of lodging instruments issued by such persons. Membership of the CMU is open to all members of the Hong Kong Capital Markets Association and "authorised institutions" under the Banking Ordinance (Cap. 155) of Hong Kong.

Compared to clearing services provided by Euroclear and Clearstream, the standard custody and clearing service provided by the CMU is limited. In particular (and unlike Euroclear or Clearstream), the HKMA does not as part of this service provide any facilities for the dissemination to the relevant CMU Members of payments (of interest or principal) under, or notices pursuant to the notice provisions of, the CMU Notes. Instead, the HKMA advises the lodging CMU Member (or a designated Paying Agent) of the identities of the CMU Members to whose accounts payments in respect of the relevant CMU Notes are credited, whereupon the lodging CMU Member (or the designated Paying Agent) will make the necessary payments of interest or principal or send notices directly to the relevant CMU Members. Notices to the holders of Notes of the relevant Series may be given (x) via the CMU Corporate Action Platform to the CMU Members shown in the records of the CMU as having interests in the relevant Global Note or Global Certificate or (y) by delivery to the persons shown in a CMU Instrument Position Report (as defined in the Trust Deed) issued by the Hong Kong Monetary Authority on the business day preceding the date of dispatch of such notice as having interests in the relevant Global Note or Global Certificate. Similarly, the HKMA will not obtain certificates of non-U.S. beneficial ownership from CMU Members or provide any such certificates on behalf of CMU Members. The CMU Lodging and Paying Agent will collect such certificates from the relevant CMU Members identified from an instrument position report obtained by request from the HKMA for this purpose.

An investor holding an interest through an account with either Euroclear or Clearstream in any Notes held in the CMU will hold that interest through the respective accounts which Euroclear and Clearstream each have with the CMU.

ANNEX B — FORM OF PRICING SUPPLEMENT

The Pricing Supplement in respect of each Tranche of Notes will be substantially in the following form, duly supplemented (if necessary), amended (if necessary) and completed to reflect the particular terms of the relevant Notes and their issue.

[MiFID II PRODUCT GOVERNANCE / PROFESSIONAL INVESTORS AND ECPS ONLY TARGET MARKET — Solely for the purposes of [the/each] manufacturer’s product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, “**MiFID II**”); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. [*Consider any negative target market.*] Any person subsequently offering, selling or recommending the Notes (a “**distributor**”) should take into consideration the manufacturer[’s/s’] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer[’s/s’] target market assessment) and determining appropriate distribution channels.]

[UK MiFIR PRODUCT GOVERNANCE / PROFESSIONAL INVESTORS AND ECPS ONLY TARGET MARKET — Solely for the purposes of [the/each] manufacturer’s product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is only eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook (“**COB**”), and professional clients, as defined in Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (“**UK MiFIR**”); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. [*Consider any negative target market.*] Any [person subsequently offering, selling or recommending the Notes (a “**distributor**”)] [distributor] should take into consideration the manufacturer[’s/s’] target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the “**UK MiFIR Product Governance Rules**”) is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer[’s/s’] target market assessment) and determining appropriate distribution channels.]

[PRIIPs REGULATION - PROHIBITION OF SALES TO EEA RETAIL INVESTORS — The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“**EEA**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of [MiFID II]/[Directive 2014/65/EU] (as amended, “**MiFID II**”); (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended, the “**Insurance Distribution Directive**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II[.]/[; or] [(iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (the “**Prospectus Regulation**”).]¹ Consequently no key information document required by Regulation (EU) No 1286/2014 (the “**PRIIPs Regulation**”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.]

¹ Paragraph (iii) is not required where the Notes have a denomination of at least €100,000 or equivalent.

[UK PRIIPs REGULATION — PROHIBITION OF SALES TO UK RETAIL INVESTORS —

The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom (the “UK”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the “EUWA”); (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (the “FSMA”) and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA[.]/[; or] [(iii) not a qualified investor as defined in Article 2 of the Prospectus Regulation as it forms part of domestic law by virtue of the EUWA.]² Consequently no key information document required by the PRIIPs Regulation as it forms part of domestic law by virtue of the EUWA (the “UK PRIIPs Regulation”) for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.]

[In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the “SFA”) and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the “CMP Regulations 2018”), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are [prescribed capital markets products]/[capital markets products other than prescribed capital markets products] (as defined in the CMP Regulations 2018) and [are] [Excluded]/[Specified] Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendation on Investment Products).]³

[Notice to Hong Kong investors: The Issuer and the Guarantor confirm that the Notes are intended for purchase by professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”)) (“Professional Investors”) only and will be listed on the Hong Kong Stock Exchange on that basis. This document is for distribution to Professional Investors only. Accordingly, the Issuer and the Guarantor confirm that the Notes are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.]

² Paragraph (iii) is not required where the programme contains a blanket prohibition on the issue of notes with a denomination of less than €100,000 or equivalent.

³ For any Notes to be offered to Singapore investors, the Issuer to consider whether it needs to re-classify the Notes pursuant to Section 309B of the SFA prior to the launch of the offer.

The Hong Kong Stock Exchange has not reviewed the contents of this document, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this document to Professional Investors only have been reproduced in this document. Listing of the Programme and the Notes on the Hong Kong Stock Exchange is not to be taken as an indication of the commercial merits or credit quality of the Programme, the Notes, the Issuer or the Guarantor or quality of disclosure in this document. Hong Kong Exchanges and Clearing Limited and the Hong Kong Stock Exchange take no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

This document includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purposes of giving information with regard to the Issuer and the Guarantor. The Issuer and the Guarantor accept full responsibility for the accuracy of the information contained in this document and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.]

Pricing Supplement dated [●]

Westwood Group Holdings Limited 卓裕控股有限公司
Issue of [Aggregate Principal Amount of Tranche] [Title of Notes]
under the US\$3,000,000,000 Guaranteed Medium Term Note Programme
Guaranteed by Yuexiu Property Company Limited 越秀地產股份有限公司

The document constitutes the Pricing Supplement relating to the issue of Notes described herein.

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Notes (the “**Conditions**”) set forth in the Offering Circular dated [●]. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with such Offering Circular dated [●] [and the supplemental Offering Circular dated [date]].

[The following alternative language applies if the first tranche of an issue which is being increased was issued under an Offering Circular with an earlier date.]

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions (the “**Conditions**”) set forth in the Offering Circular dated [original date]. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the Offering Circular dated [current date] [and the supplemental Offering Circular dated [date]], save in respect of the Conditions which are extracted from the Offering Circular dated [original date] and are attached hereto.]

[Include whichever of the following apply or specify as “Not Applicable” (N/A). Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or sub-paragraphs. Italics denote guidance for completing the Pricing Supplement.]

- | | | |
|----------|----------------------|---|
| 1 | (i) Issuer: | Westwood Group Holdings Limited
卓裕控股有限公司 |
| | (ii) Guarantor: | Yuexiu Property Company Limited
越秀地產股份有限公司 |
| 2 | [(i)] Series Number: | [●] |

	[(ii) Tranche Number:	[●] (<i>If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible.</i>)
3	Specified Currency or Currencies:	[●]
4	Aggregate Principal Amount:	[●]
	[(i) Series:	[●]
	[(ii) Tranche:	[●]
5	[(i) Issue Price:	[●] per cent. of the Aggregate Principal Amount [plus accrued interest from [insert date] (<i>in the case of fungible issues only, if applicable</i>)]
	[(ii) Net Proceeds:	[●] (<i>Required only for listed issues</i>)
6	(i) Specified Denominations ^{4, 5} :	[●]
	(ii) Calculation Amount:	[●]
7	(i) Issue Date:	[●]
	(ii) Interest Commencement Date:	[Specify/Issue Date/Not Applicable]
8	Maturity Date:	[Specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year] ⁶
9	Interest Basis:	[[●] per cent. Fixed Rate] [[Specify reference rate] + / - [●] per cent. Floating Rate] [Zero Coupon] [Index Linked Interest] [Other (<i>Specify</i>)] (further particulars specified below)
10	Redemption/Payment Basis:	[Redemption at par] [Index Linked Redemption] [Dual Currency] [Partly Paid] [Instalment] [Other (<i>Specify</i>)]

⁴ If the Notes have a maturity of less than one year from the date of their issue, the minimum denomination may need to be £100,000 or its equivalent in other currencies.,

⁵ If the specified denomination is expressed to be €100,000 or its equivalent and multiples of a lower principal amount (for example €1,000), insert the additional wording as follows: €100,000 and integral multiples of €1,000 in excess thereof up to and including €199,000. No notes in definitive form will be issued with a denomination above €199,000.

⁶ Note that for Renminbi or Hong Kong dollar denominated Fixed Rate Notes where Interest Payment Dates are subject to modification it will be necessary to use the second option here.

- 11 Change of Interest or Redemption/Payment Basis: *[Specify details of any provision for convertibility of Notes into another interest or redemption/ payment basis]*
- 12 Put/Call Options: [Investor Put]
[Change of Control Put Option]
[Issuer Call]
[(further particulars specified below)]
- 13 [(i)] Date of the Pre-issuance the NDRC Registration Certificate evidencing the registration of the issue of the Notes with the NDRC: [●]
- [(ii)] Date of [Board] approval for issuance of Notes [and Guarantee] obtained: [●][and [●], respectively]
(N.B Only relevant where Board (or similar) authorisation is required for the particular tranche of Notes or related Guarantee)
- 14 Listing: [The Hong Kong Stock Exchange/Other (specify)/None] *(For Notes to be listed on the Hong Kong Stock Exchange, insert the expected effective listing date of the Notes)*
- 15 Method of distribution: [Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

- 16 **Fixed Rate Note Provisions:** [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (i) Rate[(s)] of Interest: [●] per cent. per annum [payable [annually/semi annually/quarterly/monthly/ other (specify)] in arrear]
- (ii) Interest Payment Date(s): [●] in each year [adjusted in accordance with *[specify Business Day Convention and any applicable Business Centre(s) for the definition of "Business Day"]*/not adjusted]
- (iii) Fixed Coupon Amount[(s)]: [●] per Calculation Amount⁷
- (iv) Broken Amount(s): [●] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [●]
- (v) Day Count Fraction: [30/360/Actual/Actual - [ISDA or Actual/Actual-ICMA]/other]

⁷ For Renminbi or Hong Kong dollar denominated Fixed Rate Notes where the Interest Payment Dates are subject to modification the following alternative wording is appropriate: "Each Fixed Coupon Amount shall be calculated by multiplying the product of the Rate of Interest and the Calculation Amount by the Day Count Fraction and rounding the resultant figure to the nearest CNY0.01 (CNY0.005 being rounded upwards for the case of Renminbi denominated Fixed Rate Notes) or to the nearest HK\$0.01 (HK\$0.005 being rounded upwards for the case of Hong Kong dollar denominated Fixed Rate Notes)."

- (vi) [Determination Dates:] in each year (*insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/Actual - ICMA*)
- (vii) Other terms relating to the method of calculating interest for Fixed Rate Notes: [Not Applicable/*give details*]
- 17 Floating Rate Note Provisions:** [Applicable/Not Applicable]
(*If not applicable, delete the remaining subparagraphs of this paragraph*)
- (i) Interest Period(s):
- (ii) Specified Period:
(*Specified Period and Specified Interest Payment Dates are alternatives. A Specified Period, rather than Specified Interest Payment Dates, will only be relevant if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention. Otherwise, insert "Not Applicable"*)
- (iii) Specified Interest Payment Dates:
(*Specified Period and Specified Interest Payment Dates are alternatives. If the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention, insert "Not Applicable"*)
- (iv) Business Day Convention: [Floating Rate Business Day Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (*give details*)]
- (vi) Additional Business Centre(s): [Not Applicable/*give details*]
- (vii) Manner in which the Rate(s) of Interest is/are to be determined: [Screen Rate Determination/ISDA Determination/other (*give details*)]
- (viii) Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the [Issuing and Paying Agent]): [[*Name*] shall be the Calculation Agent (*no need to specify if the Issuing and Paying Agent is to perform this function*)]
- (ix) Screen Rate Determination:
- Reference Rate: [*For example, LIBOR or EURIBOR*]
 - Interest Determination Date(s):
 - Relevant Screen Page: [*For example, Reuters LIBOR 01/EURIBOR 01*]

- Relevant Time: *[For example, 11.00 a.m. London time/Brussels time]*
 - Relevant Financial Centre: *[For example, London/Euro-zone (where Euro-zone means the region comprised of the countries whose lawful currency is the euro)]*
- (x) ISDA Determination:
- Floating Rate Option: [●]
 - Designated Maturity: [●]
 - Reset Date: [●]
- (xi) Margin(s): [+/-] [●] per cent. per annum
- (xii) Minimum Rate of Interest: [●] per cent. per annum
- (xiii) Maximum Rate of Interest: [●] per cent. per annum
- (xiv) Day Count Fraction: [●]
- (xv) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions: [●]
- 18 Zero Coupon Note Provisions:** [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Amortisation Yield: [●] per cent. per annum
 - (ii) Day Count Fraction: [●]
 - (iii) Any other formula/basis of determining amount payable: [●]
- 19 Index-Linked Interest Note/other variable-linked interest Note Provisions:** [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Index/Formula/other variable: *[give or annex details]*
 - (ii) Party, if any, responsible for calculating the rate(s) of Interest and/or Interest Amount(s) (if not [●] as Calculation Agent): [●]

- (iii) Provisions for determining Coupon where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted: [●]
- (iv) Interest or calculation period(s): [●]
- (v) Specified Interest Payment Dates: [●]
- (vi) Business Day Convention: [Floating Rate Business Day Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (*give details*)]
- (vii) Business Centre(s): [●]
- (viii) Minimum Rate/Amount of Interest: [●] per cent. per annum
- (ix) Maximum Rate/Amount of Interest: [●] per cent. per annum
- (x) Day Count Fraction: [●]

20 Dual Currency Note Provisions:

[Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)

- (i) Rate of Exchange/method of calculating Rate of Exchange: [*give details*]
- (ii) Party, if any, responsible for calculating the rate(s) of Interest and/or Interest Amount(s) (if not [●] as Calculation Agent): [●]
- (iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: [●]
- (iv) Person at whose option Specified Currency(ies) is/are payable: [●]

PROVISIONS RELATING TO REDEMPTION

21 Call Option:

[Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)

- (i) Optional Redemption Date(s): [●]
- (ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s): [●] per Calculation Amount

- (iii) If redeemable in part:
- (a) Minimum Redemption Amount: per Calculation Amount
- (b) Maximum Redemption Amount: per Calculation Amount
- (iv) Notice period:
- 22 Put Option:** [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (i) Optional Redemption Date(s):
- (ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s): per Calculation Amount
- (iii) Notice period:
- 23 Change of Control Put Option:** [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (i) Change of Control Redemption Amount:
- [(ii) Put Period:
- [(iii) Put Date:
- 24 Final Redemption Amount of each Note:** per Calculation Amount [*Specify other/see Appendix*]
- 25 Early Redemption Amount:** Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons or on event of default or other early redemption and/or the method of calculating the same (if required or if different from that set out in the Conditions): [Not Applicable/ per Calculation Amount/*Specify other/see Appendix*]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

- 26 Form of Notes:** **[Bearer Notes:**
 [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note]

[Temporary Global Note exchangeable for Definitive Notes on [●] days' notice]⁸

[Permanent Global Note exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note]]

[Registered Notes:

Global Certificate exchangeable for Individual Certificates in the limited circumstances described in the Global Certificate]

- 27 Financial Centre(s) or other special provisions relating to payment dates: [Not Applicable/*give details*.
Note that this paragraph relates to the date and place of payment, and not interest period end dates, to which sub-paragraph 17(vi) relates]
- 28 Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature): [Yes/No. *If yes, give details*]
- 29 **Details relating to Partly Paid Notes:** amount of each payment comprising the Issue Price and date on which each payment is to be made [and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment]: [Not Applicable/*give details*]
- 30 **Details relating to Instalment Notes:** amount of each instalment, date on which each payment is to be made: [Not Applicable/*give details*]
- 31 Redenomination, renominatisation and reconventioning provisions: [Not Applicable/The provisions annexed to this Pricing Supplement apply]
- 32 Any applicable currency disruption/ fallback provisions: [Not Applicable/*give details*]
- 33 Other terms or special conditions: [Not Applicable/*give details*]

DISTRIBUTION

- 34 (i) If syndicated, names of Managers: [Not Applicable/*give names*]
- (ii) Stabilising Manager(s) (if any): [Not Applicable/*give name*]
- 35 If non-syndicated, name and address of Dealer: [Not Applicable/*give name and address*]

⁸ If the Specified Denominations of the Notes in paragraph 6 includes language substantially to the following effect: "[€100,000] and integral multiples of [€1,000] in excess thereof up to and including [€199,000]", the Temporary Global Note shall not be exchangeable on [●] days' notice.

36 U.S. Selling Restrictions: Reg. S Category [1/2];
(*In the case of Bearer Notes*) — [TEFRA C Rules/TEFRA D Rules/TEFRA Not Applicable]
(*In the case of Registered Notes*) — TEFRA Not Applicable

37 Additional selling restrictions: [Not Applicable/*give details*]

OPERATIONAL INFORMATION

38 ISIN Code: [●]

39 Common Code: [●]

40 CMU Instrument Number: [●]

41 Any clearing system(s) other than [Euroclear/Clearstream]/[the CMU] and the relevant identification number(s): [Not Applicable/*give name(s) and number(s)*]

42 Delivery: Delivery [against/free of] payment

43 Additional Paying Agent(s) (if any): [●]

GENERAL

44 The aggregate principal amount of Notes issued has been translated into US dollars at the rate of [●], producing a sum of (*for Notes not denominated in US dollars*): [Not Applicable/US\$]

45 [Ratings: The Notes to be issued are expected to be rated:
[Moody's: [●]]
[Fitch: [●]]
[Other: [●]]
(*The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.*)]

46 Prohibition of Sales to EEA Retail Investors: [Applicable/Not Applicable]
(*If the Notes clearly do not constitute "packaged" products or the Notes do constitute "packaged" products and a key information document will be prepared, "Not Applicable" should be specified. If the Notes may constitute "packaged" products and no key information document will be prepared, "Applicable" should be specified.*)

47 Prohibition of Sales to UK Retail Investors: [Applicable/Not Applicable]
(*If the Notes clearly do not constitute "packaged" products or the Notes do constitute "packaged" products and a key information document will be prepared, "Not Applicable" should be specified. If the Notes may constitute "packaged" products and no key information document will be prepared, "Applicable" should be specified.*)

[USE OF PROCEEDS

Give details if different from the “Use of Proceeds” section in the Offering Circular.]

[STABILISING

In connection with this issue, [*insert name of Stabilising Manager*] (the “**Stabilising Manager**”) (or persons acting on behalf of any Stabilising Manager) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may be discontinued at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager (or persons acting on behalf of any Stabilising Manager) in accordance with all applicable laws and rules.]

PURPOSE OF PRICING SUPPLEMENT

This Pricing Supplement comprises the final terms required for issue [and admission to trading on [the Hong Kong Stock Exchange]] of the Notes described herein pursuant to the US\$3,000,000,000 Guaranteed Medium Term Note Programme.

RESPONSIBILITY

Each of the Issuer and the Guarantor accepts responsibility for the information contained in this Pricing Supplement.

Signed on behalf of Westwood Group Holdings Limited 卓裕控股有限公司:

By: _____

Duly authorised

Signed on behalf of Yuexiu Property Company Limited 越秀地產股份有限公司:

By: _____

Duly authorised

THE ISSUER

Westwood Group Holdings Limited

25/F., Yue Xiu Building
160 Lockhart Road
Wanchai, Hong Kong

THE GUARANTOR

Yuexiu Property Company Limited

26/F., Yue Xiu Building
160 Lockhart Road
Wanchai, Hong Kong

TRUSTEE

DB Trustees (Hong Kong) Limited

Level 60, International Commerce Centre
1 Austin Road West
Kowloon, Hong Kong

ISSUING AND PAYING AGENT

Deutsche Bank AG, Hong Kong Branch

Level 60, International Commerce Centre
1 Austin Road West
Kowloon, Hong Kong

REGISTRAR AND TRANSFER AGENT

Deutsche Bank AG, Hong Kong Branch

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1 Austin Road West
Kowloon, Hong Kong

CMU LODGING AND PAYING AGENT

Deutsche Bank AG, Hong Kong Branch

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INDEPENDENT AUDITOR OF THE GUARANTOR

PricewaterhouseCoopers

Certified Public Accountants

Registered Public Interest Entity Auditor

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Hong Kong