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For the avoidance of doubt, the publication of this announcement and the listing document referred to herein shall not be deemed to be an offer of securities made pursuant to a prospectus issued by or on behalf of the issuer for the purposes of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong nor shall it constitute an advertisement, invitation or document containing an invitation to the public to enter into or offer to enter into an agreement to acquire, dispose of, subscribe for or underwrite securities for the purposes of the Securities and Futures Ordinance (Cap. 571) of Hong Kong.

Notice to Hong Kong investors: *The Issuer and the Personal Guarantors (as defined in the Exchange Offer and Consent Solicitation Memorandum) 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) only and have been listed on The Stock Exchange of Hong Kong Limited on that basis. Accordingly, the Issuer and the Personal Guarantors confirm that the Notes are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.*

**PUBLICATION OF THE EXCHANGE OFFER AND
CONSENT SOLICITATION MEMORANDUM**



GLORY 国瑞

GUORUI PROPERTIES LIMITED

國瑞置業有限公司

(the “Issuer”)

(incorporated in the Cayman Islands with limited liability as “Glory Land Company Limited” and

carrying on business in Hong Kong as Guorui Properties Limited)
(Stock code: 2329)

**US\$323,745,000 14.25% SENIOR NOTES DUE 2024 (THE “NOTES”)
(STOCK CODE: 40558)**

This announcement is issued pursuant to Rule 37.39A of the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

Please refer to an exchange offer and consent solicitation memorandum dated January 12, 2021 (the “**Exchange Offer and Consent Solicitation Memorandum**”), as amended and supplemented by a supplement to the Exchange Offer and Consent Solicitation Memorandum dated January 18, 2021 appended herein, a results announcement of the Issuer dated January 21, 2021 (the “**Exchange Offer Results Announcement**”) and a completion announcement of the Issuer dated January 25, 2021 (the “**Exchange Offer Completion Announcement**”) published on the website of the Stock Exchange in relation to the exchange offer and consent solicitation in respect of the Issuer’s 13.5% Senior Notes Due 2022 (ISIN: XS1932655613/Common Code: 193265561) and the issuance of the Notes. As disclosed in the Exchange Offer and Consent Solicitation Memorandum, the Notes were intended for purchase by professional investors only (as defined in Chapter 37 of the Listing Rules) and will be listed on the Stock Exchange on that basis.

The Exchange Offer Results Announcement is available at: (<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0121/2021012100111.pdf>)

The Exchange Offer Completion Announcement is available at (<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0125/2021012501065.pdf>). Other than the Exchange Offer Results Announcement and the Exchange Offer Completion Announcement, the Exchange Offer and Consent Solicitation Memorandum is published in English only. No Chinese version of the Exchange Offer and Consent Solicitation Memorandum has been published.

The Exchange Offer and Consent Solicitation Memorandum does not constitute a prospectus, notice, circular, brochure or advertisement offering to sell any securities to the public in any jurisdiction, nor is it an invitation to the public to make offers to subscribe for or purchase any securities, nor is it circulated to invite offers by the public to subscribe for or purchase any securities.

The Exchange Offer and Consent Solicitation Memorandum must not be regarded as an inducement to subscribe for or purchase any securities of the Issuer, and no such inducement is intended. No investment decision should be made based on the information contained in the Exchange Offer and Consent Solicitation Memorandum.

January 26, 2021

As at the date of this announcement, the Board of Directors of the Issuer comprises Mr. Zhang Zhangsun, Ms. Ruan Wenjuan, Ms. Zhang Jin, Mr. Lin Yaoquan, Ms. Dong Xueer and Mr. Li Bin as executive Directors and Mr. Luo Zhenbang, Mr. Lai Siming and Ms. Chen Jingru as independent non-executive Directors.

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The attached document is not a prospectus for the purposes of the European Union’s Regulation (EU) 2017/1129.

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INVESTORS WHO ARE NOT U.S. PERSONS AND ARE OUTSIDE THE UNITED STATES.**



GLORY 国瑞

GUORUI PROPERTIES LIMITED

國瑞置業有限公司

*(Incorporated in the Cayman Islands with limited liability as “Glory Land Company Limited” and
carrying on business in Hong Kong as Guorui Properties Limited)*

**Offer to Exchange at least a Minimum Acceptance Amount (as defined below) of,
and Solicitation of Consents to Approve Amendments to
the Indenture Governing, the Outstanding 13.5% Senior Notes Due 2022**

| Description of Debt Securities | Outstanding Amount | ISIN/Common Code | Minimum Acceptance Amount | Exchange and Consent Consideration per US\$1,000 of applicable Existing Notes (as defined herein) accepted for exchange |
|---|-------------------------------|-----------------------------|--|---|
| 13.5% Senior Notes Due 2022 (the “Existing Notes”) | US\$455,000,000 | XS1932655613/ 193265561 | US\$300,000,000 | US\$1,077.041 in aggregate principal amount of New Notes and cash in lieu of any fractional amount of the New Notes not issued (rounded to the nearest US\$0.01, with US\$0.005 rounded upwards). |

This is a supplement (this “**Supplement**”) to the exchange offer and consent solicitation memorandum of Guorui Properties Limited, incorporated in the Cayman Islands under the name of “Glory Land Company Limited (國瑞置業有限公司)” (the “**Company**”) dated January 12, 2021 (the “**exchange offer and consent solicitation memorandum**”). All capitalized terms used in this Supplement and not otherwise defined herein have the meanings set forth in the exchange offer and consent solicitation memorandum. Except as modified herein, all other terms and conditions of the Exchange Offer and the Consent Solicitation as set out in the exchange offer and consent solicitation memorandum shall remain unchanged.

Extension of the Exchange and Consent Expiration Deadline

With immediate effect, the Company has extended the Exchange and Consent Expiration Deadline from 4:00 p.m., London Time on January 18, 2021 to 4:00 p.m., London Time on January 20, 2021 (the “**Extended Expiration Deadline**”).

Correspondingly, subject to satisfaction or waiver of the conditions as set forth in the exchange offer and consent solicitation memorandum, (i) announcement of the results of the Exchange Offer and the Consent Solicitation and pricing of the Concurrent New Money Issuance (if any) are expected to occur on or about January 21, 2021, or as soon as practicable after the Extended Expiration Deadline, (ii) settlement of the New Notes, delivery of the Exchange and Consent Consideration to Eligible Holders whose Existing Notes have been validly tendered and accepted for exchange, and execution of the Supplemental Indenture are expected to occur on or about January 26, 2021, and (iii) listing of the New Notes on the Hong Kong Stock Exchange and the SGX-ST is expected to occur on or about January 27, 2021.

Eligible Holders who have validly tendered their Notes or provided Consent-only instructions at or prior to the original Exchange and Consent Expiration Deadline do not need to take any action. Their instructions in connection with the Exchange Offer and Consent Solicitation remain valid and irrevocable.

Eligible Holders who have not tendered their Existing Notes may tender their Existing Notes prior to the Extended Expiration Deadline in accordance with the terms and conditions set forth in the exchange offer and consent solicitation memorandum. By validly tendering Existing Notes at or prior to the Extended Expiration Deadline, Eligible Holders will be deemed to have given Consent to the Proposed Amendments. Eligible Holders who have not participated in the Consent Solicitation regardless of whether they are participating in the Exchange Offer may participate in the Consent Solicitation by delivering Consent-only instructions with respect to their holding of the Existing Notes prior to the Extended Expiration Deadline in accordance with the terms and conditions set forth in the exchange offer and consent solicitation memorandum. The deadlines set by any such intermediary and Euroclear or Clearstream, as applicable, for the submission of Instructions will be earlier than the Extended Expiration Deadline specified in this Supplement. Instructions in connection with the Exchange Offer and Consent Solicitation are irrevocable.

Subject to the consummation of the Exchange Offer and Consent Solicitation, we will pay, with respect to Existing Notes validly tendered and accepted for exchange prior to the Extended Expiration Deadline, the Exchange and Consent Consideration as set forth in the exchange offer and consent solicitation memorandum. For the avoidance of doubt, no consent fee will be provided to Eligible Holders who deliver Consent-only instructions without participating in the Exchange Offer.

Modifications

Change in Terms of the New Notes

With immediate effect, the Company has modified the terms of the New Notes. The modifications include: (i) amending the cross-acceleration Event of Default to remove the threshold requirement in respect of defaults under the Existing Notes; and (ii) amending the “Limitation on Liens” covenant and the definition of “Permitted Liens” to allow the creation of Liens in respect of certain Indebtedness of Pledge Entity A permitted under the “Limitation on Indebtedness and Preferred Stock” covenant.

For a more fulsome description of the amendments, see “Appendix I. Modifications” to this Supplement for a complete list of such modifications to the section headed “Description of the Notes” in Appendix A of the exchange offer and consent solicitation memorandum.

Dealer Manager

Haitong International

The date of this Supplement is January 18, 2021

Questions about the terms of the Exchange Offer and Consent Solicitation should be directed to the Dealer Manager at its respective addresses and telephone numbers set forth below.

If you have questions regarding tender or exchange procedures, please contact the Information, Tabulation and Exchange Agent at the address and telephone number set forth below.

For additional copies of this Supplement and the exchange offer and consent solicitation memorandum, please contact the Information, Tabulation and Exchange Agent at the address and telephone number set forth below.

Beneficial owners may also contact their brokers, dealers, commercial banks, trust companies or other nominee for assistance concerning the Exchange Offer and Consent Solicitation.

The Information, Tabulation and Exchange Agent for the Exchange Offer and Consent Solicitation is:

D.F. King

In London
65 Gresham Street
London EC2V 7NQ
United Kingdom
Tel: +44 20 7920 9700

In Hong Kong
Suite 1601, 16th Floor, Central Tower
28 Queen's Road Central
Hong Kong
Tel: +852 3953 7208

Email: guorui@dfkingltd.com

Exchange and Consent Website: <https://sites.dfkingltd.com/guorui>

The Dealer Manager for the Exchange Offer and Consent Solicitation is:

Haitong International Securities Company Limited

22/F, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong SAR, China

APPENDIX I. MODIFICATIONS

The following modifications have been made to the section headed “*Description of the Notes*” in Appendix A of the exchange offer and consent solicitation memorandum (amended texts are shown in double-underline and deletions shown in ~~strikethrough~~):

The following paragraph on page 215 of Appendix A under the sub-section “Security” shall be amended as follow:

“Glory (HK) Investment Limited (國瑞(香港)投資有限公司) (the “**Pledgor A**”) has agreed, for the benefit of the Holders, to pledge all Capital Stock of Langfang Guoxing Real Estate Development Co., Ltd. (廊坊國興房地產開發有限公司) (the “**Pledge Entity A**”) now held or subsequently acquired by such Pledgor, and All Affluent Holdings (HK) Limited (通裕控股(香港)有限公司) (the “**Pledgor B**” and, together with the Pledgor A and, if applicable, any Additional Pledgor as provided below, the “**Pledgors**” and each a “**Pledgor**”) has agreed, for the benefit of the Holders, to pledge all Capital Stock of Qidong Glory Properties Limited (啟東市國瑞置業有限公司) (the “**Pledge Entity B**” and, together with the Pledge Entity A and, if applicable, any Additional Pledge Entity as provided below, the “**Pledge Entities**” and each a “**Pledge Entity**”) now held or subsequently acquired by such Pledgor, for the benefit of the Holders of the Notes (collectively, the “**Initial Collateral**”) on a first-priority basis (subject to any Permitted Lien specified in clause (1) or (30) of the definition of “Permitted Liens” and, with respect to the issued Capital Stock of the Pledge Entity A, Liens specified in clause (11) of the definition of “Permitted Liens” (provided that such Liens are released within the time period and in the manner provided in the Yongqing Security Document)) on the Original Issue Date in order to secure the obligations of the Company under the Notes and the Indenture and of each such Pledgor under its Subsidiary Guarantee.”

The following paragraph on page 217 of Appendix A under the sub-section “Enforcement of Security” shall be amended as follow:

“The first-priority Lien (subject to any Permitted Lien specified in clause (1) or (30) of the definition of “Permitted Liens” and, with respect to the issued Capital Stock of the Pledge Entity A, Liens specified in clause (11) of the definition of “Permitted Liens” (provided that such Liens are released within the time period and in the manner provided in the Yongqing Security Document)) securing the Notes and the Subsidiary Guarantees of the Pledgors will be granted to the Collateral Agent for itself and for the benefit of the Holders and the Trustee. Citicorp International Limited will act as the Collateral Agent under the Security Documents entered into on the Original Issue Date. The Collateral Agent will hold such Liens over the Collateral granted pursuant to the Security Documents with sole authority in accordance with the terms of the Security Documents. The Collateral Agent has agreed to act as secured party on behalf of the Secured Parties and to follow the written instructions provided to it under the Indenture and the Security Documents and to carry out certain other duties. The Trustee will give instructions to the Collateral Agent by itself or in accordance with instructions it will receive from the Holders under the Indenture.”

The following paragraph on page 240 of Appendix A under the sub-section “Limitation on Liens” shall be amended as follow:

“The Company will not, and will not permit any of the Pledgors or any other Restricted Subsidiaries to, directly or indirectly, incur, assume or permit to exist any Lien on any assets of the Pledge Entities (including but not limited to the Properties) (other than any Permitted Lien specified in clause (1), (2), (3), (5), (8), (11), (13), (14), ~~(15)~~ or (31) of the definition of “Permitted Liens”).”

The following paragraph on page 246 of Appendix A under the sub-section “Events of Default” shall be amended as follow:

“(5) there occurs with respect to (i) any Indebtedness (other than any 2019 Notes) of the Company or any Restricted Subsidiary having an outstanding principal amount of US\$10 million (or the Dollar Equivalent thereof) or more in the aggregate for all such Indebtedness of all such Persons, whether such Indebtedness now exists or shall hereafter be created, or (ii) any 2019 Notes, (a) an event of default that has caused the holder thereof to declare such Indebtedness or such 2019 Note to be due and payable prior to its Stated Maturity and/or (b) the failure to make a principal payment when due;”

Before the definition “Acquired Indebtedness,” on page 262 of Appendix A, the following definition shall be added:

““2019 Notes” means the 13.5% Senior Notes due 2022 issued by Company.”

After paragraph (30) of the definition of “Permitted Liens” on page 282 of Appendix A, the following paragraph shall be added:

“(31) Liens on assets of the Pledge Entity A to secure Indebtedness permitted under clause (3)(i) of the covenant described under “—Limitation on Indebtedness and Preferred Stock”;”

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You are reminded that you have accessed the attached exchange offer and consent solicitation memorandum on the basis that you are a person into whose possession such exchange offer and consent solicitation memorandum may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not nor are you authorized to deliver such exchange offer and consent solicitation memorandum, electronically or otherwise, to any other person. If you have gained access to this transmission contrary to the foregoing restrictions, you will be unable to purchase any of the securities described therein.

YOU ARE NOT AUTHORIZED AND YOU MAY NOT FORWARD OR DELIVER THE ATTACHED EXCHANGE OFFER AND CONSENT SOLICITATION MEMORANDUM, ELECTRONICALLY OR OTHERWISE, TO ANY OTHER PERSON OR REPRODUCE SUCH EXCHANGE OFFER AND CONSENT SOLICITATION MEMORANDUM IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE ATTACHED EXCHANGE OFFER AND CONSENT SOLICITATION MEMORANDUM, IN WHOLE OR IN PART, IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE U.S. SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

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**THIS DOCUMENT IS IMPORTANT AND REQUIRES IMMEDIATE ATTENTION.
NOT FOR DISTRIBUTION IN OR INTO THE UNITED STATES OR TO ANY PERSON LOCATED OR
RESIDENT IN THE UNITED STATES. THIS EXCHANGE OFFER AND CONSENT SOLICITATION IS
AVAILABLE ONLY TO INVESTORS WHO ARE NOT U.S. PERSONS AND ARE OUTSIDE THE UNITED
STATES.**



GLORY 國瑞
GUORUI PROPERTIES LIMITED
國瑞置業有限公司

(Incorporated in the Cayman Islands with limited liability as “Glory Land Company Limited” and carrying on business in Hong Kong as Guorui Properties Limited)

**Offer to Exchange at least a Minimum Acceptance Amount (as defined below) of,
and Solicitation of Consents to Approve Amendments to
the Indenture Governing, the Outstanding 13.5% Senior Notes Due 2022**

| Description of Debt Securities | Outstanding Amount | ISIN/Common Code | Minimum Acceptance Amount | Exchange and Consent Consideration per US\$1,000 of applicable Existing Notes (as defined herein) accepted for exchange |
|---|--------------------|----------------------------|---------------------------|---|
| 13.5% Senior Notes Due 2022 (the “Existing Notes”). | US\$455,000,000 | XS1932655613/ 193265561 | US\$300,000,000 | US\$1,077.041 in aggregate principal amount of New Notes and cash in lieu of any fractional amount of the New Notes not issued (rounded to the nearest US\$0.01, with US\$0.005 rounded upwards). |

THIS EXCHANGE OFFER AND CONSENT SOLICITATION (AS DEFINED HEREIN) WILL EXPIRE AT 4:00 P.M., LONDON TIME ON JANUARY 18, 2021, UNLESS EXTENDED OR EARLIER TERMINATED AT OUR SOLE DISCRETION (SUCH DATE AND TIME, AS THE SAME MAY BE EXTENDED, THE “EXCHANGE AND CONSENT EXPIRATION DEADLINE”), ELIGIBLE HOLDERS (AS DEFINED HEREIN) WHO GIVE INSTRUCTIONS (AS DEFINED HEREIN) TO EXCHANGE EXISTING NOTES WILL RECEIVE EXCHANGE AND CONSENT CONSIDERATION AS DESCRIBED BELOW. INSTRUCTIONS MAY NOT BE WITHDRAWN ONCE SUBMITTED.

Upon the terms and subject to the conditions set forth in this exchange offer and consent solicitation memorandum (this “exchange offer and consent solicitation memorandum”), we, Guorui Properties Limited, incorporated in the Cayman Islands under the name of “Glory Land Company Limited (國瑞置業有限公司)” (the “Company”) and as the context may require, words of similar import, including “we,” “us,” or “our”; are offering to exchange (the “Exchange Offer”) for at least US\$300,000,000 of the outstanding principal amount of the Existing Notes (the “Minimum Acceptance Amount”) held by Eligible Holders, and soliciting (the “Consent Solicitation”) consents (the “Consents”) from Eligible Holders to certain proposed amendments (the “Proposed Amendments”) to the indenture, dated as of February 27, 2019 (as supplemented or amended to the date hereof, the “Existing Notes Indenture”), by and among the Company, the subsidiary guarantors for the Existing Notes (the “Subsidiary Guarantors”) and Citicorp International Limited, as trustee of the Existing Notes (the “Existing Notes Trustee”), and to the execution by the Company, the Subsidiary Guarantors and the Existing Notes Trustee of an amendment to the Existing Notes Indenture giving effect to the Proposed Amendments (the “Supplemental Indenture”) as set out in “Appendix B — Form of Supplemental Indenture,” for the exchange and consent consideration for each US\$1,000 principal amount of the outstanding Existing Notes that is validly tendered prior to the Exchange and Consent Expiration Deadline and accepted for exchange (the “Exchange and Consent Consideration”).

- (a) US\$1,077.041 in aggregate principal amount of the US\$ denominated Senior Notes (the “New Notes”); and
(b) cash in lieu of any fractional amount of the New Notes not issued (rounded to the nearest US\$0.01, with US\$0.005 rounded upwards).

For the avoidance of doubts, once accepted by the Company for exchange, no cash payment (including accrued but unpaid interest from August 27, 2020 to the Settlement Date) in respect of the Existing Notes will be paid to the Eligible Holders who tender such Existing Notes for exchange.

We are concurrently conducting an offering (the “Concurrent New Money Issuance”) of additional New Notes (the “Additional New Notes”). Such concurrent transaction is not part of the Exchange Offer and Consent Solicitation and is conducted pursuant to a separate offering memorandum as set out in “Appendix A — Preliminary Offering Memorandum for the New Notes.”

The Exchange Offer and the Consent Solicitation, as either may be amended from time to time, are referred to herein collectively as the “Exchange Offer and Consent Solicitation.” Terms used in this exchange offer and consent solicitation memorandum that are not otherwise defined herein have the meanings set forth in the Existing Notes Indenture. We plan to use our own internal funds to pay the cash components of the Exchange and Consent Consideration described above.

By validly tendering any portion of your Existing Notes in the Exchange Offer, you will be deemed to have given your Consent in the Consent Solicitation in respect of such portion of your holding of the Existing Notes. You will also have an option to participate in the Consent Solicitation by delivering a Consent-only instruction, regardless of whether you are participating in the Exchange Offer.

The Proposed Amendments will be binding on all holders of Existing Notes upon receipt of Consents validly submitted with respects to not less than 50% in aggregate principal amount of the Existing Notes outstanding (the “Requisite Consents”) and will become effective upon execution of the Supplemental Indenture, which is expected to occur promptly after our receipt of the Requisite Consents, but will become operative concurrently with the consummation of the Exchange Offer. See “Proposed Amendments.” All Consents delivered will be deemed to be Consents to the Proposed Amendments as a whole.

The Existing Notes are unconditionally and irrevocably guaranteed by the Subsidiary Guarantors. We refer to the guarantees by the Subsidiary Guarantors as the “Subsidiary Guarantees.” Under certain circumstances and subject to certain conditions, a limited-recourse guarantee (the “JV Subsidiary Guarantee”) may be provided by certain subsidiaries or may replace a Subsidiary Guarantee. We refer to the subsidiaries providing “JV Subsidiary Guarantees” as “JV Subsidiary Guarantors.” The New Notes will be guaranteed by the Subsidiary Guarantors, and will have the benefit of the JV Subsidiary Guarantees (if any), the Personal Guarantees (as defined below) and the Share Charges (as defined below). The New Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any) are collectively referred to herein as the “New Securities.” Holders of the New Notes will be entitled to the benefit of (i) personal guarantees by Mr. ZHANG Zhaungsun and Ms. RUAN Wenjuan (the “Personal Guarantors”), our controlling shareholder and his spouse (the “Personal Guarantees”); and (ii) (a) a charge over all capital stock of Langfang Guoxing Real Estate Development Co., Ltd. (廊坊國興地產開發有限公司) (“Langfang Guoxing”) now held or subsequently acquired by Glory (HK) Investment Limited (國瑞(香港)投資有限公司) (formerly known as Glory Real Estate (HK) Investment Limited (國瑞地產(香港)投資有限公司) (“Share Charge A”); and (b) a charge over all capital stock of Qidong Glory Properties Limited (啟東市國瑞置業有限公司) (“Qidong Glory”) now held or subsequently acquired by All Affiliated Holdings (HK) Limited (國瑞控股(香港)有限公司) (“Share Charge B”); together with the Share Charge A, the “Share Charges,” such collateral, the “Collateral”) (notwithstanding that the Existing Notes are not secured and without the benefit of the Personal Guarantors).

The New Notes will bear interest from the Settlement Date at the rate of 14.25% per annum, payable semi-annually in arrears, and will mature on the third anniversary of the Settlement Date. Holders of the New Notes have the right, at their option, to require us to repurchase for cash all of their New Notes, or any portion of the principal thereof that is equal to US\$200,000 or integral multiples of US\$1,000 in excess thereof, on the date that is fifteen months after the Settlement Date at the repurchase price equal to 100% of the principal amount of the New Notes to be repurchased, plus accrued and unpaid interest to, but excluding, such repurchase date. Additional terms of the New Notes are as set forth in the offering memorandum set out in “Appendix A — Preliminary Offering Memorandum for the New Notes.”

We expect to announce the pricing terms of the Concurrent New Money Issuance as soon as practicable following any such pricing or, if we decide not to proceed with the Concurrent New Money Issuance (or any portion thereof), we will announce such decision as soon as practicable following such decision being made. Pricing of the Concurrent New Money Issuance is expected to occur on January 18, 2021, or as soon as practicable after the Exchange and Consent Expiration Deadline. However, there can be no assurance that the Concurrent New Money Issuance will price at all. If the Concurrent New Money Issuance is not consummated with respect to any or all of the Additional New Notes, the relevant pricing terms of the New Notes in addition to those set forth in this exchange offer and consent solicitation memorandum will be announced as soon as practicable following the confirmation that the Concurrent New Money Issuance with respect to such Additional New Notes will not be consummated.

Our obligation to accept for exchange the Existing Notes validly tendered is subject to, and conditioned upon, among other things, the valid tender of Existing Notes for at least the Minimum Acceptance Amount, the receipt of the Requisite Consents and the execution of the Supplemental Indenture, and, other than the Minimum Acceptance Amount, we reserve the right, in our sole discretion, to amend any term of, or waive any condition to, the Exchange Offer and Consent Solicitation prior to the Exchange and Consent Expiration Deadline.

Instructions to exchange any of the Existing Notes (the “Instruction”) may only be submitted in a minimum principal amount of US\$200,000 and integral multiples of US\$1,000 in excess thereof. Any New Notes to be issued to any Eligible Holder in the Exchange Offer and Consent Solicitation will be in a minimum principal amount of US\$200,000 and integral multiples of US\$1,000 in excess thereof. To the extent that any Eligible Holder elects to exchange only a portion of its Existing Notes, any retained portion must be in a minimum principal amount of US\$200,000 and integral multiples of US\$1,000 in excess thereof. Instructions that would result in a principal amount of New Notes below US\$200,000 will be rejected.

Instructions in connection with the Exchange Offer and Consent Solicitation are irrevocable. Eligible Holders may not withdraw Instructions at any time once delivered in accordance with the terms herein.

The Exchange Offer and Consent Solicitation is subject to the conditions discussed under “Description of the Exchange Offer and Consent Solicitation — Conditions to the Exchange Offer and Consent Solicitation.”

Notwithstanding anything to the contrary contained in this exchange offer and consent solicitation memorandum or in any other document related to the Exchange Offer and Consent Solicitation, we expressly reserve the right, at our sole discretion and regardless of whether any of the conditions described under “Description of the Exchange Offer and Consent Solicitation — Conditions to the Exchange Offer and Consent Solicitation” have been satisfied, subject to applicable law, at any time to (i) terminate the Exchange Offer, in whole or in part, (ii) waive any of the conditions described herein, in whole or in part, other than the Minimum Acceptance Amount, (iii) extend the Exchange and Consent Expiration Deadline or Settlement Date, (iv) amend the terms of the Exchange Offer or (v) modify the form or amount of the consideration to be paid pursuant to this Exchange Offer and Consent Solicitation. If we receive valid tender of the Existing Notes for less than the Minimum Acceptance Amount, we will not proceed with the Exchange Offer and Consent Solicitation and the Exchange Offer and Consent Solicitation shall lapse automatically.

Only direct participants in Euroclear Bank SA/NV (“Euroclear”) or Clearstream Banking S.A. (“Clearstream”), may submit Instructions through Euroclear and Clearstream. If you are not a direct participant in Euroclear or Clearstream, you must contact your broker, dealer, bank, custodian, trust company or other nominee to arrange for its direct participant through which you hold the Existing Notes to submit an Instruction on your behalf to the relevant clearing system prior to the deadline specified by the relevant clearing system. Any Eligible Holder that gives Instructions on behalf of a beneficial holder must give separate instructions with respect to each of its beneficial holders. Eligible Holders who wish to participate in the Consent Solicitation (regardless of whether they are participating in the Exchange Offer) by submitting a Consent-only instruction must validly deliver such instruction to Euroclear or Clearstream prior to the Exchange and Consent Expiration Deadline and before the deadlines set by Euroclear and Clearstream, as the case may be. Eligible Holders who intend to make different elections with respect to portions of their holding of Existing Notes must deliver separate instructions with respect to each such portion. Upon giving instructions with respect to any Existing Notes, those Existing Notes will be blocked and may not be transferred until the Exchange Offer and Consent Solicitation is terminated so as to result in a cancellation of such instructions.

You should carefully consider all information in this exchange offer and consent solicitation memorandum including, in particular, the “Risk Factors” section in this exchange offer and consent solicitation memorandum, “Appendix A — Preliminary Offering Memorandum for the New Notes” and “Appendix B — Form of Supplemental Indenture” before you make any decision regarding the Exchange Offer and Consent Solicitation. For more information regarding the New Notes, see the section entitled “Description of the New Notes” in “Appendix A — Preliminary Offering Memorandum for the New Notes.”

YOU MUST MAKE YOUR OWN DECISION WHETHER TO EXCHANGE YOUR EXISTING NOTES IN THE EXCHANGE OFFER OR DELIVER CONSENTS IN THE CONSENT SOLICITATION. NONE OF THE COMPANY, THE TRUSTEE OF THE EXISTING NOTES, THE SUBSIDIARY GUARANTORS, THE DEALER MANAGER, THE INFORMATION, TABULATION AND EXCHANGE AGENT (EACH AS DEFINED HEREIN) OR ANY OTHER PERSON IS MAKING ANY RECOMMENDATION AS TO WHETHER OR NOT YOU SHOULD EXCHANGE YOUR EXISTING NOTES IN THE EXCHANGE OFFER OR DELIVER CONSENTS IN THE CONSENT SOLICITATION.

Application will be made to the Hong Kong Stock Exchange for the listing of the New Notes by way of debt issues to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”) — the “Professional Investors”) only. This document is for distribution to Professional Investors only. Notice to Hong Kong investors: The Company and the Personal Guarantors confirm that the New Notes are intended for purchase by Professional Investors only and will be listed on the Hong Kong Stock Exchange on that basis. Accordingly, the Company and the Personal Guarantors confirm that the New 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 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 New Notes on the Hong Kong Stock Exchange is not to be taken as an indication of the commercial merits or credit quality of the New Notes or the Company, the Subsidiary Guarantors and the JV Subsidiary Guarantors (if any) or the Personal Guarantors, 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.

An Eligible Holder participating in the Exchange Offer and Consent Solicitation will be required to certify its Investor Profile (as defined herein) when submitting Instructions for the Exchange Offer and Consent Solicitation. See “Description of the Exchange Offer and Consent Solicitation — Procedures for Tendering Existing Notes and Delivering Consents — Investor Profile Election.” An Eligible Holder’s certification of its Investor Profile does not affect any of its entitlements with respect to the Existing Notes in the Exchange Offer.

Application will also be made for the listing and quotation of the New Notes on the Singapore Exchange Securities Trading Limited (the “SGX-ST”). The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained herein. Approval in-principle for the listing and quotation of the New Notes on the SGX-ST is not to be taken as an indication of the merits of the New Notes, the Company, any Subsidiary Guarantor, any Personal Guarantor or any JV Subsidiary Guarantor (if any). The New Notes will be traded on the SGX-ST in a minimum board lot size of US\$200,000 for so long as any of the New Notes are listed on the SGX-ST and the rules of the SGX-ST so require.

For so long as the New Notes are listed on the SGX-ST and the rules of the SGX-ST so require, we will appoint and maintain a paying agent in Singapore, where the New Notes may be presented or surrendered for payment or redemption, in the event that a global note or global certificate is exchanged for definitive notes. In addition, in the event that a global note or global certificate is exchanged for definitive notes, an announcement of such exchange shall be made by or on behalf of us through the SGX-ST and such announcement will include all material information with respect to the delivery of the definitive notes, including details of the paying agent in Singapore.

The New Securities have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the “Securities Act”), and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the New Notes are being offered and sold only to non-U.S. persons outside the United States in compliance with Regulation S under the Securities Act. For a description of certain restrictions on resale or transfer, see the section entitled “Transfer Restrictions” in “Appendix A — Preliminary Offering Memorandum for the New Notes.”

Dealer Manager
Haitong International

The date of this exchange offer and consent solicitation memorandum is January 12, 2021

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This exchange offer and consent solicitation memorandum does not constitute an offer to sell to, or a solicitation of an offer to buy from, any person in any jurisdiction to whom it is unlawful to make the offer or solicitation in such jurisdiction. Neither the delivery of this exchange offer and consent solicitation memorandum nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in our affairs since the date of this exchange offer and consent solicitation memorandum or that the information contained in this exchange offer and consent solicitation memorandum is correct as of any time after that date.

This exchange offer and consent solicitation memorandum is not a prospectus for the purposes of the European Union’s Regulation (EU) 2017/1129.

The communication of this exchange offer and consent solicitation memorandum and any other document or materials relating to the issue of the New Notes offered hereby is not being made, and such documents and/or materials have not been approved, by an authorized person for the purposes of section 21 of the United Kingdom’s Financial Services and Markets Act 2000, as amended (the “FSMA”). Accordingly, such documents and/or materials are not being distributed to, and must not be passed on to, the general public in the United Kingdom. The communication of such documents and/or materials as a financial promotion is only being made to those persons in the United Kingdom falling within the definition of investment professionals (as defined in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the “Financial Promotion Order”), or within Article 43(2) of the Financial Promotion Order, or who are any other persons to whom it may otherwise lawfully be made under the Financial Promotion Order (all such persons together being referred to as “relevant persons”). In the United Kingdom, the New Notes offered hereby are only available to, and any investment or investment activity to which this exchange offer and consent solicitation memorandum relates will be engaged in only with, relevant persons. Any person in the United Kingdom that is not a relevant person should not act or rely on this exchange offer and consent solicitation memorandum or any of its contents.

PROHIBITION OF SALES TO EEA RETAIL INVESTORS — The New 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 Directive 2014/65/EU (as amended, “MiFID II”); or (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. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the “PRIIPs Regulation”) for offering or selling the New Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the New Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

PROHIBITION OF SALES TO UK RETAIL INVESTORS — The New 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 (“**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 (“**EUWA**”); or (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (“**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. Consequently no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA (the “**UK PRIIPs Regulation**”) for offering or selling the New Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the New Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

Notification under Section 309B(1) of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”) — the Company has determined, and hereby notifies all persons (including all relevant persons (as defined in Section 309A(1) of the SFA)), that the New Notes are prescribed capital markets products (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore) 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 document 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 Company, the Subsidiary Guarantors, the JV Subsidiary Guarantors and the Personal Guarantors. Each of the Company, the Subsidiary Guarantors, the JV Subsidiary Guarantors and the Personal Guarantors accepts full responsibility for the accuracy of the information contained in this document and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

We, having made all reasonable inquiries, confirm that: (i) this exchange offer and consent solicitation memorandum contains all information with respect to the Company, its subsidiaries and affiliates referred to in this exchange offer and consent solicitation memorandum, the New Securities and the Collateral, that is material in the context of the Exchange Offer and Consent Solicitation and the issue of the New Notes; (ii) the statements contained in this exchange offer and consent solicitation memorandum relating to the Company and its subsidiaries are in every material respect true and accurate and not misleading; (iii) the opinions and intentions expressed in this exchange offer and consent solicitation memorandum with regard to the Company and its subsidiaries are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions; (iv) there are no other material facts in relation to the Company, its subsidiaries, the New Securities and the Collateral, the omission of which would, in the context of the Exchange Offer and Consent Solicitation and the issue of the New Notes, make this exchange offer and consent solicitation memorandum, as a whole, misleading; and (v) we have made all reasonable enquiries to ascertain such facts and to verify the accuracy of all such information and statements. We accept responsibility accordingly.

No representation or warranty, express or implied, is made by Haitong International Securities Company Limited (the “**Dealer Manager**”), Citicorp International Limited (the “**Existing Notes Trustee**”) and the “**New Notes Trustee**”), Citibank, N.A., London Branch (the “**Paying Agent**,” the “**Registrar**” and the “**Transfer Agent**,” together the “**Existing Notes Agents**”) or D.F. King, being the information, tabulation and exchange agent (the “**Information, Tabulation and Exchange Agent**”) or any of their respective affiliates, directors or advisors as to the accuracy or completeness of the information set forth herein, and nothing contained in this exchange offer and consent solicitation memorandum is, or should be relied upon as, a promise or representation, whether as to the past or the future. None of the Dealer Manager, the Existing Notes Trustee, the Existing Notes Agents, the Information, Tabulation and Exchange Agent and any of their respective affiliates, directors or advisors has independently verified any of the information contained in this exchange offer and consent

solicitation memorandum. They can give no assurance that this information is accurate, truthful or complete, and, to the fullest extent permitted by law, none of them accepts any responsibility for the contents of this exchange offer and consent solicitation memorandum. This exchange offer and consent solicitation memorandum is not intended to provide the basis of any credit or other evaluation nor should it be considered as a recommendation by the Company, the Subsidiary Guarantors, the Personal Guarantors, the Dealer Manager, the Existing Notes Trustee, the Existing Notes Agents, or the Information, Tabulation and Exchange Agent as to whether Eligible Holders of the Existing Notes should tender the Existing Notes pursuant to the Exchange Offer and Consent Solicitation.

Each person receiving this exchange offer and consent solicitation memorandum acknowledges that: (i) such person has been afforded an opportunity to request from us and to review, and has received, all additional information considered by it to be necessary to verify the accuracy of, or to supplement, the information contained herein; (ii) such person has not relied on the Dealer Manager or any person affiliated with the Dealer Manager in connection with any investigation of the accuracy of such information or its decision; and (iii) no person has been authorized to give any information or to make any representation concerning the Company, its subsidiaries and affiliates, the New Securities and the Collateral (other than as contained herein and information given by our duly authorized officers and employees in connection with investors' examination of our company and the terms of the Exchange Offer and Consent Solicitation) and, if given or made, any such other information or representation should not be relied upon as having been authorized by us or any Dealer Manager.

The New Securities have not been approved or disapproved of by the United States Securities and Exchange Commission ("SEC"), any state securities commission in the United States or any other United States regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the Exchange Offer and Consent Solicitation or the accuracy or adequacy of this exchange offer and consent solicitation memorandum. Any representation to the contrary is a criminal offense in the United States.

We are not, and the Dealer Manager is not, making an offer to sell the New Securities, including the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any), in any jurisdiction except where an offer or sale is permitted. The distribution of this exchange offer and consent solicitation memorandum and the Exchange Offer and Consent Solicitation may in certain jurisdictions be restricted by law. Persons into whose possession this exchange offer and consent solicitation memorandum comes are required by us and the Dealer Manager to inform themselves about and to observe any such restrictions. For a description of the restrictions on the offer and distribution of the New Securities, including the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any), and distribution of this exchange offer and consent solicitation memorandum, see the section entitled "Offer and Distribution Restrictions" below.

This exchange offer and consent solicitation memorandum summarizes certain material documents and other information, and we refer you to them for a more complete understanding of what we discuss in this exchange offer and consent solicitation memorandum. In making an investment decision, you must rely on your own examination of us and the terms of the Exchange Offer and Consent Solicitation, including the merits and risks involved. None of us, the Dealer Manager, the Existing Notes Trustee, the New Notes Trustee, the Information, Tabulation and Exchange Agent is making any representation to you regarding the legality of tendering the Existing Notes pursuant to the Exchange Offer and Consent Solicitation by you under any legal, investment, taxation or similar laws or regulations. You should not consider any information in this exchange offer and consent solicitation memorandum to be legal, business or tax advice. You should consult your own professional advisors for legal, business, tax and other advice regarding tendering the Existing Notes and giving Consents pursuant to the Exchange Offer and Consent Solicitation.

We expressly reserve the absolute right, at our sole discretion, from time to time to redeem or purchase any Existing Notes that remain outstanding after the Exchange and Consent Expiration Deadline through open market or privately negotiated transactions, one or more tender offers or

additional exchange offers or otherwise, on terms that may differ from those of this exchange offer and consent solicitation memorandum and could be for cash or other consideration, or to exercise any of our rights (including rights of redemption) under the indenture governing the Existing Notes.

CERTAIN DEFINITIONS AND CONVENTIONS

In this exchange offer and consent solicitation memorandum, other than the section headed “Appendix A — Preliminary Offering Memorandum for the New Notes,” when we use the terms “we,” “us,” “our,” the “Company” and words of similar import, we are referring to Guorui Properties Limited, incorporated in the Cayman Islands under the name of “Glory Land Company Limited (國瑞置業有限公司),” unless the context otherwise requires.

FORWARD-LOOKING STATEMENTS

This exchange offer and consent solicitation memorandum includes “forward-looking statements” that are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include but are not limited to those listed in “Appendix A — Preliminary Offering Memorandum for the New Notes — Forward-Looking Statements.”

In some cases, you can identify forward-looking statements by such terminology as “may,” “will,” “should,” “could,” “would,” “expect,” “intend,” “plan,” “anticipate,” “going forward,” “ought to,” “seek,” “project,” “forecast,” “believe,” “estimate,” “predict,” “potential” or “continue” or the negative of these terms or other comparable terminology. Such statements reflect the current views of our management with respect to future events, operations, results, liquidity and capital resources and are not guarantees of future performance and some of which may not materialize or may change. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we cannot assure you that those expectations will prove to be correct, and you are cautioned not to place undue reliance on such statements. In addition, unanticipated events may adversely affect the actual results we achieve. Important factors that could cause actual results to differ materially from our expectations are disclosed under the section entitled “Risk Factors” in this exchange offer and consent solicitation memorandum and “Appendix A — Preliminary Offering Memorandum for the New Notes.” Except as required by law, we undertake no obligation to update or otherwise revise any forward-looking statements contained in this exchange offer and consent solicitation memorandum, whether as a result of new information, future events or otherwise after the date of this exchange offer and consent solicitation memorandum. All forward-looking statements contained in this exchange offer and consent solicitation memorandum are qualified by reference to the cautionary statements set forth in this section.

OFFER AND DISTRIBUTION RESTRICTIONS

This exchange offer and consent solicitation memorandum does not constitute an offer of securities for sale in any jurisdiction where it is unlawful to do so. The distribution of this exchange offer and consent solicitation memorandum in certain jurisdictions may be restricted by law. Persons into whose possession this exchange offer and consent solicitation memorandum comes are required by each of us, the Existing Notes Trustee, the New Notes Trustee, the Dealer Manager and the Information, Tabulation and Exchange Agent to inform themselves about and to observe any such restrictions.

UNITED STATES

The Exchange Offer and Consent Solicitation will only be made to Eligible Holders who are non-U.S. persons located outside the United States and hold the Existing Notes through the Clearing Systems (as defined herein) or certain fiduciaries holding accounts for the benefit of non-U.S. persons outside the United States and holding the Existing Notes through the relevant Clearing System.

The New 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 jurisdictions, and the New Securities may not be offered or sold within the United States or to, or for the account or benefit of, U.S. Persons (as defined in Regulation S of the Securities Act) outside the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable laws of any other jurisdiction. See “Transfer Restrictions” in “Appendix A — Preliminary Offering Memorandum Regarding the New Notes.”

EUROPEAN ECONOMIC AREA AND UNITED KINGDOM

PRIIPs Regulation/Prohibition of sales to EEA retail investors

The Dealer Manager has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any New Notes to any retail investor in the EEA.

For the purposes of this provision, the expression “retail investor” means a person who is one (or more) of the following:

- (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or
- (ii) a customer within the meaning of 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.

Furthermore, the New Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available by any person to any retail investor in the EEA. Consequently no key information document as would be required by the PRIIPs Regulation for offering or selling the New Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the New Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

UK PRIIPs Regulation/Prohibition of sales to UK retail investors

The Dealer Manager has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes to any retail investor in the UK.

For the purposes of this provision, the expression “retail investor” means a person who is one (or more) of the following:

- (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 EUWA; or
- (ii) a customer within the meaning of the provisions of 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; and

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 New Notes to be offered so as to enable an investor to decide to purchase or subscribe for the New Notes.

Furthermore, the New 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 UK. Consequently no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA (the “**UK PRIIPs Regulation**”) for offering or selling the New Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the New Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

UNITED KINGDOM

The communication of this exchange offer and consent solicitation memorandum and any other document or materials relating to the issue of the New Securities offered hereby is not being made, and such documents and/or materials have not been approved, by an authorized person for the purposes of section 21 of the FSMA. Accordingly, such documents and/or materials are not being distributed to, and must not be passed on to, the general public in the UK. The communication of such documents and/or materials as a financial promotion is only being made to those persons in the UK falling within the definition of investment professionals (as defined in Article 19(5) of the Financial Promotion Order, or within Article 43(2) of the Financial Promotion Order, or who are any other persons to whom it may otherwise lawfully be made under the Financial Promotion Order (all such persons together being referred to as “**relevant persons**”). In the United Kingdom, the New Securities offered hereby are only available to, and any investment or investment activity to which this exchange offer and consent solicitation memorandum relates will be engaged in only with, relevant persons. Any person in the United Kingdom that is not a relevant person should not act or rely on this exchange offer and consent solicitation memorandum or any of its contents.

All applicable provisions of the FSMA must be complied with in respect to anything done by any person in relation to the Exchange Offer and Consent Solicitation in, from or otherwise involving the UK.

HONG KONG

This exchange offer and consent solicitation memorandum has not been and will not be registered with the Registrar of Companies in Hong Kong. Accordingly, except as mentioned below, this exchange offer and consent solicitation memorandum may not be issued, circulated or distributed in Hong Kong. A copy of this exchange offer and consent solicitation memorandum may, however, be issued to a limited number of prospective applicants for the Exchange Offer and Consent Solicitation or the New Securities in Hong Kong (i) in a manner which does not constitute an offer to the public in Hong Kong or an issue, circulation or distribution in Hong Kong of a prospectus for the purposes of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32 of the Laws of Hong Kong), or (ii) to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

No advertisement, invitation or document relating to the Exchange Offer and Consent Solicitation or the New Securities may be issued or may be in the possession of any person other than with respect to the New Securities which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) and any rules made thereunder.

JAPAN

The Exchange Offer and Consent Solicitation and the New Securities have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948, as amended; the “FIEA”) and may not be offered or sold directly or indirectly, 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 organized under the laws of Japan) or to others for reoffering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

SINGAPORE

The exchange offer and consent solicitation memorandum has not been and will not be registered as a prospectus with the Monetary Authority of Singapore (the “MAS”). Accordingly, this exchange offer and consent solicitation memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the New Notes may not be circulated or distributed, nor may the New 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 (as defined in Section 4A of the SFA) under 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 and (where applicable) Regulation 3 of the Securities and Futures (Classes of Investors) Regulations 2018 of Singapore; or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the New 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,

the 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 New 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 of Singapore.

Any reference to the SFA is a reference to the Securities and Futures Act, Chapter 289 of Singapore and a reference to any term as defined in the SFA or any provision in the SFA is a reference to that term or provision as modified or amended from time to time including by such of its subsidiary legislation as may be applicable at the relevant time.

Notification under Section 309B(1) of the SFA — the Company has determined, and hereby notifies all persons (including all relevant persons (as defined in Section 309A(1) of the SFA)), that the New Notes are prescribed capital markets products (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore) 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).

PRC

This exchange offer and consent solicitation memorandum may not be circulated or distributed in the PRC and the New Securities may not be offered or sold directly or indirectly to any resident of the PRC, or offered or sold to any person for reoffering or resale directly or indirectly to any resident of the PRC except pursuant to applicable laws and regulations of the PRC.

CAYMAN ISLANDS

The Exchange Offer and Consent Solicitation will not be made to, and the New Securities will not be offered or sold directly or indirectly to, the public in the Cayman Islands. This exchange offer and consent solicitation memorandum does not constitute, and will not be, an offering of the New Securities to any person in the Cayman Islands.

BRITISH VIRGIN ISLANDS

The Exchange Offer and Consent Solicitation will not be made to, and the New Securities will not be offered or sold directly or indirectly to, the public in the British Virgin Islands. This exchange offer and consent solicitation memorandum does not constitute, and will not be, an offering of the New Securities to any person in the British Virgin Islands.

SUMMARY OF THE EXCHANGE OFFER AND CONSENT SOLICITATION

This summary contains basic information about the Exchange Offer and Consent Solicitation. It may not contain all of the information that is important to you in deciding to accept the Exchange Offer or give the Consents and it is qualified in its entirety by the more detailed information included in this exchange offer and consent solicitation memorandum. You should carefully consider the information contained in this exchange offer and consent solicitation memorandum, including the “Risk Factors,” “Appendix A — Preliminary Offering Memorandum for the New Notes” and “Appendix B — Form of Supplemental Indenture.” In addition, certain statements include forward-looking statements that involve risks and uncertainties. See “Forward-Looking Statements.”

The material terms of the Exchange Offer and Consent Solicitation are summarized below. In addition, we urge you to read the detailed descriptions in the section of this exchange offer and consent solicitation memorandum titled “Description of the Exchange Offer and Consent Solicitation.”

Issuer Guorui Properties Limited (incorporated under the name of “Glory Land Company Limited (國瑞置業有限公司)” in the Cayman Islands and carrying on business in Hong Kong as “Guorui Properties Limited”) (the “**Company**”).

Existing Notes 13.5% Senior Notes due 2022 (ISIN number: XS1932655613; Common Code: 193265561).

The Exchange Offer and Consent Solicitation Upon the terms and subject to the conditions set forth in this exchange offer and consent solicitation memorandum, we are offering to exchange at least the Minimum Acceptance Amount of our outstanding Existing Notes held by Eligible Holders and soliciting consents from Eligible Holders to certain proposed amendments to the Existing Notes Indenture, and to the execution by the Company, the Subsidiary Guarantors and the Existing Notes Trustee of an amendment to the Existing Notes Indenture giving effect to the Proposed Amendments, for the Exchange and Consent Consideration.

As of the date of this exchange offer and consent solicitation memorandum, US\$455,000,000 in aggregate principal amount of our Existing Notes is outstanding. As of the date hereof, none of our Affiliates, to our knowledge, held any Existing Notes other than certain holdings by our directors and their associates in an aggregate principal amount of US\$5,000,000.

Eligible Holders of the Existing Notes validly accepted and exchanged in the Exchange Offer and Consent Solicitation will, from and including the Settlement Date, waive any and all rights with respect to such Existing Notes (other than the right to receive the Exchange and Consent Consideration) and will release and discharge us from any and all claims such holders may have, now or in the future, arising out of or related to such Existing Notes, including any and all accrued and unpaid interest thereon.

By validly tendering any portion of their Existing Notes in the Exchange Offer, Eligible Holders will be deemed to have given Consent in the Consent Solicitation in respect of such portion of their holding of the Existing Notes. Eligible Holders may not participate in the Exchange Offer without consenting to the Proposed Amendments to the Existing Notes Indenture. All Consents delivered and accepted will be deemed to be Consents to the Proposed Amendments as a whole.

In addition, each Eligible Holder will have an option to participate in the Consent Solicitation by delivering a Consent-only instruction, regardless of whether it is participating in the Exchange Offer. The Proposed Amendments will be binding on all holders of Existing Notes upon our receipt of Consents validly submitted with respect to not less than 50% in aggregate principal amount of the Existing Notes outstanding (the “**Requisite Consents**”). The Proposed Amendments will be approved at the time when we have received the Requisite Consents.

The Proposed Amendments will become effective upon execution of the Supplemental Indenture to the Existing Notes Indenture and will become operative concurrently with the consummation of the Exchange Offer. If the Proposed Amendments are accepted and effected, the Existing Notes that are not tendered and accepted pursuant to the Exchange Offer will be subject to the Proposed Amendments. See “Risk Factors — Risks Relating to the Exchange Offer and Consent Solicitation Generally — The proposed elimination of, or amendments to, provisions in the Existing Notes Indenture will reduce the protection afforded to remaining holders of Existing Notes and could materially and adversely affect the credit risk inherent in the Existing Notes.”

While the Existing Notes are not secured, the New Notes will be secured by the Collateral. In addition, the New Notes will be guaranteed by the Personal Guarantors, who will not guarantee the Existing Notes. See “Risk Factors — Risks Relating to the Exchange Offer and Consent Solicitation Generally — Non-exchanging noteholders will not have the benefit of the Collateral and the Personal Guarantees.” We cannot assure you that the Exchange Offer and Consent Solicitation will be consummated on the terms described in this exchange offer and consent solicitation memorandum or at all.

Purpose of the Exchange Offer and
Consent Solicitation

We intend to refinance the Existing Notes and improve our debt structure to enable us to extend our debt maturity profile, develop more steadily, strengthen our balance sheet and improve cash flow management.

Assuming that the Exchange Offer and Consent Solicitation is consummated, and depending on market conditions, we may exercise our redemption rights under the indenture governing the Existing Notes. If the Concurrent New Money Issuance is consummated, we will use the net cash proceeds from the Concurrent New Money Issuance to refinance, among others, the Existing Notes with the remainder for general corporate purposes.

Summary of Material Differences between the Existing Notes and the New Notes

Major differences between the Existing Notes and the New Notes include the following:

- a. holders of the New Notes are entitled to the benefit of:
 - (i) Personal Guarantees provided by Mr. ZHANG Zhangsun and Ms. RUAN Wenjuan, the controlling shareholder of the Company and his spouse;
 - (ii) a charge over all capital stock of Langfang Guoxing Real Estate Development Co., Ltd. (廊坊國興房地產開發有限公司) (“**Langfang Guoxing**”) now held or subsequently acquired by Glory (HK) Investment Limited (國瑞(香港)投資有限公司) (formerly known as Glory Real Estate (HK) Investment Limited (國瑞地產(香港)投資有限公司);
 - (iii) a charge over all capital stock of Qidong Glory Properties Limited (啟東市國瑞置業有限公司) (“**Qidong Glory**”) now held or subsequently acquired by All Affluent Holdings (HK) Limited (通裕控股(香港)有限公司) (together with the charge over shares mentioned in (ii) above, the “Share Charges,” such Share Charges not to be released until the repayment in full or defeasance or discharge of the New Notes in accordance with the indenture governing the New Notes);
- b. amendments of the covenants under the New Notes shall require consent of not less than 75% (in terms of aggregate principal amount) of non-affiliate holders of outstanding New Notes;
- c. amendments or waivers of any provision relating to Personal Guarantees or Share Charges under the New Notes in a manner that adversely affects the Holders shall require consent of non-affiliate holders of not less than 80% of the outstanding New Notes;
- d. without prejudice to the LTV (as defined below) and related requirements as set forth below, neither Langfang Guoxing nor Qidong Glory shall incur additional debt before full repayment of the New Notes unless contractually subordinated to the New Notes, provided that such contractually subordinated debt shall not be secured by any lien, except for (i) Indebtedness incurred pursuant to a facility between Langfang Guoxing and a PRC-based bank with principal amount of up to RMB250 million, and any extensions thereof, (ii) debt or preferred stock owed to the Company or any of its Subsidiaries that are contractually subordinated in right of payment to the New Notes, the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Personal Guarantees, provided that such contractually subordinated debt or preferred stock shall not be secured by any Lien and (iii) debt incurred in connection with the ordinary course of business of Langfang Guoxing or Qidong Glory (including, without limitation, Pre-Registration Mortgage Guarantees);
- e. the New Notes shall rank senior to any existing and future intercompany claims at Langfang Guoxing or Qidong Glory or to which any assets held by any such entity is subject;

- f. we will not, and will not permit the No. 2 parcel of the Company's Yongqing project located in Langfang City owned and operated by Langfang Guoxing or any of its subsidiaries, to sell, transfer or otherwise dispose of it, in whole or in part, unless in the ordinary course of business under the Permitted Business (as defined in the indenture governing the New Notes). We will not, and will not permit the Howard Johnson Glory Plaza Qidong project owned by Qidong Glory and operated by Qidong Glory Hotel Management Co., Ltd., a wholly and directly owned subsidiary of Qidong Glory or any of its subsidiaries, to sell, transfer or otherwise dispose of it, in whole or in part, to any third party;
- g. we shall not permit to exist any lien on the shares of Langfang Guoxing and Qidong Glory (other than customary permitted liens including the Share Charges) and the properties as mentioned in the paragraph above (other than customary permitted liens including the liens pre-existing on such properties);
- h. we shall appoint an appraiser (within pre-agreed list of appraisers) to conduct valuation of the assets held by Langfang Guoxing and Qidong Glory on semi-annual basis. The ratio of the outstanding amounts of the New Notes divided by the sum of the net assets of the Langfang Guoxing and Qidong Glory (the "LTV") shall not exceed 80%. Should the LTV exceed 80%, we shall repay such amount of the New Notes, or provide pledges over shares of one or more of our other subsidiaries, such that, after taking into account of the repayment or such other subsidiaries' assets and debt, the LTV does not exceed 80%. The LTV shall be tested on a fiscal semiannual basis with an officer's certificate from us setting forth the calculation of such LTV and certifying the compliance of this covenant;

For purposes of paragraph (h), net assets equals to fair value of the assets (as appraised by appraiser) minus outstanding debt of Langfang Guoxing and Qidong Glory (defined as (i) short-term loans (短期借款), current non-liquid liabilities (一年內到期的非流動負債), long-term borrowings (長期借款) and long-term bonds (長期債券) (the items above, the "Applicable Indebtedness") of Langfang Guoxing and Qidong Glory, (ii) guarantees by Langfang Guoxing and Qidong Glory in respect of any of the Applicable Indebtedness, and (iii) all Applicable Indebtedness of other Persons secured by a lien on any asset of Langfang Guoxing or Qidong Glory, whether or not such Applicable Indebtedness is assumed by Langfang Guoxing or Qidong Glory);

- i. we and the Pledgors shall procure Langfang Guoxing and Qidong Glory not to reduce or otherwise adversely affect the share capital of Langfang Guoxing and Qidong Glory, (i) except for the implementation of the reduction in the share capital of Langfang Guoxing from RMB2.2 billion to RMB200 million authorized prior to the commencement of the Exchange Offer or (ii) unless such reduction is used to repay the New Notes;
- j. we and the Pledgors shall procure Langfang Guoxing and Qidong Glory not to distribute dividends or make other distributions in respect of the shares subject to the Share Charges, unless such distribution is used to repay the New Notes; and

- k. the New Notes will incorporate, to a certain extent, changes similar to the Proposed Amendments proposed in the Consent Solicitation,

in each case as described in more details in “Appendix A — Preliminary Offering Memorandum for the New Notes — Description of the Notes.” Additional terms of the New Notes are as set forth in the offering memorandum set out in “Appendix A — Preliminary Offering Memorandum for the New Notes.”

Minimum Acceptance Amount The minimum aggregate principal amount of the Existing Notes, being US\$300,000,000 of the outstanding principal amount of the Existing Notes, for which valid tenders are received and that the Company will determine, in its sole discretion, whether it will accept for exchange pursuant to the Exchange Offer and Consent Solicitation. If we receive valid tender of the Existing Notes for less than the Minimum Acceptance Amount, we will not proceed with the Exchange Offer and Consent Solicitation and the Exchange Offer and Consent Solicitation shall lapse automatically.

Exchange and Consent Consideration For each US\$1,000 principal amount of the outstanding Existing Notes that is validly tendered prior to the Exchange and Consent Expiration Deadline and accepted for exchange, an Eligible Holder of such Existing Notes will receive the Exchange and Consent Consideration consisting of:

- (a) US\$1,077.041 in aggregate principal amount of the New Notes; and
- (b) cash in lieu of any fractional amount of the New Notes not issued (rounded to the nearest US\$0.01, with US\$0.005 rounded upwards).

For the avoidance of doubts, once accepted by the Company for exchange, no cash payment (including accrued but unpaid interest from August 27, 2020 to the Settlement Date) in respect of the Existing Notes will be paid to the Eligible Holders who tender such Existing Notes for exchange.

Proposed Amendments See “Description of the Proposed Amendments” for details.

Interest Rate and Tenure of the New Notes The New Notes will bear interest from the Settlement Date at the rate of 14.25% per annum, payable semi-annually in arrears, and will mature on the third anniversary of the Settlement Date. Holders of the New Notes have the right, at their option, to require us to repurchase for cash all of their New Notes, or any portion of the principal thereof that is equal to US\$200,000 or integral multiples of US\$1,000 in excess thereof, on the date that is fifteen months after the Settlement Date at the repurchase price equal to 100% of the principal amount of the New Notes to be repurchased, plus accrued and unpaid interest to, but excluding, such repurchase date.

We expect to announce the pricing terms of the Concurrent New Money Issuance as soon as practicable following any such pricing or, if we decide not to proceed with the Concurrent New Money Issuance (or any portion thereof), we will announce such decision on January 18, 2021, or as soon as practicable following such decision being made. Pricing of the Concurrent New Money Issuance is expected to occur as soon as practicable after the Exchange and Consent Expiration Deadline. However, there can be no assurance that the Concurrent New Money Issuance will price at all.

If the Concurrent New Money Issuance is not consummated with respect to any or all of the Additional New Notes, the relevant pricing terms of the New Notes in addition to those set forth in this exchange offer and consent solicitation memorandum will be announced as soon as practicable following the confirmation that the Concurrent New Money Issuance with respect to such Additional New Notes will not be consummated.

Investor Profile Election..... Pursuant to the Hong Kong Stock Exchange, an Eligible holder is required to certify its Investor Profile when submitting its Instructions (as defined below). References to “Investor Profile” are to categories of professional investors as determined pursuant to the Securities and Futures Ordinance (Cap. 571) of Hong Kong. See “Description of the Exchange Offer and Consent Solicitation — Procedures for Tendering Existing Notes and Delivering Consents — Investor Profile Election.”

Minimum Denomination of New Notes The New Notes will be issued in minimum denominations of US\$200,000 and integral multiples of US\$1,000 in excess thereof.

Exchange and Consent Expiration Deadline 4:00 p.m., London time on January 18, 2021, unless extended or earlier terminated at our sole discretion.

Settlement Date We anticipate that the Settlement Date will occur on or about January 25, 2021, unless the Exchange Offer and Consent Solicitation is extended or earlier terminated.

Exchange and Consent Website..... <https://sites.dfkingltd.com/guorui>, the website set up by the Information, Tabulation and Exchange Agent for the purposes of hosting the documents relating to the Exchange Offer and Consent Solicitation.

Eligible Holders..... The Exchange Offer and Consent Solicitation will only be made to, and the New Securities are being offered and will be issued only to, eligible holders who are non-U.S. persons located outside the United States (as those terms are defined in Regulation S under the Securities Act) in exchange for their Existing Notes through Euroclear and Clearstream or certain fiduciaries holding accounts for the benefit of non-U.S. persons outside the United States (as those terms are defined in Regulation S under the Securities Act) with the Existing Notes held through Euroclear and Clearstream (the “**Eligible Holders**”).

By giving Instructions, Eligible Holders of Existing Notes will be deemed to make a series of representations, warranties and undertakings, which are set out in “Description of the Exchange Offer and Consent Solicitation — Representations, Warranties and Covenants of Eligible Holders of Existing Notes,” and to have given Consent in the Consent Solicitation.

Only Eligible Holders who have, or on whose behalf their brokers, dealers, custodians, trust companies or other nominees have, completed the procedures described in, and required by, this exchange offer and consent solicitation memorandum are eligible to participate in the Exchange Offer and Consent Solicitation.

For a description of restrictions on resale or transfer of the New Notes, see “Transfer Restrictions” in “Appendix A — Preliminary Offering Memorandum for the New Notes.”

Conditions to the Exchange Offer and Consent Solicitation

Our obligation to consummate the Exchange Offer and Consent Solicitation is conditional upon the following:

- the valid tender of Existing Notes in an aggregate principal amount not less than the Minimum Acceptance Amount;
- receipt of Requisite Consents of outstanding Existing Notes not owned by the Company or any of its affiliates;
- there being no material adverse change in the market from the date of this exchange offer and consent solicitation memorandum to the Settlement Date;
- an affirmative determination by us that accepting the exchanges, paying the Exchange and Consent Consideration and effecting the transactions contemplated hereby are in our best interests; and
- the satisfaction of the other conditions described in “Description of the Exchange Offer and Consent Solicitation — Conditions to the Exchange Offer and Consent Solicitation.”

Subject to applicable law, we may terminate or withdraw the Exchange Offer and Consent Solicitation if any of the conditions are not satisfied or waived by us by the Settlement Date. We may also extend the Exchange Offer and Consent Solicitation from time to time until the conditions are satisfied or waived. Although we have no present plans or arrangements to do so, we reserve the right to amend, modify or waive, at any time, other than the Minimum Acceptance Amount, the terms and conditions of the Exchange Offer and Consent Solicitation, subject to applicable law. We will give you notice of any amendments, modifications or waivers as and if required by applicable law.

Existing Notes Put Option.....

Pursuant to the Existing Notes Indenture, all holders of the Existing Notes (including the Eligible Holders) have the right (the “**Put Option**”), at their option, to require the Company to repurchase for cash all of their Existing Notes, or any portion of the principal thereof that is equal to US\$200,000 or integral multiples of US\$1,000 in excess thereof on February 27, 2021 (the “**Put Option Date**”). Holders who decide, at their option, to request the Company to repurchase their Existing Notes on the Put Option Date must deliver a written repurchase notice to the Paying Agent during the period beginning at the open of business on December 29, 2020 (London time) and ending at the close of business on January 27, 2021 (London time) and must specify in its written notice the principal amount of the Existing Notes that such holder request for repurchase by the Company pursuant to the Put Option. The repurchase price of the Notes to be paid by the Company on the Put Option Date to each holder who exercise their Put Option will be 100% of the principal amount of the Existing Notes requested by such holder for repurchase plus the accrued and unpaid interest to, but excluding, the Put Option Date.

Holders may withdraw any repurchase notice (in whole or in part) by a written notice of withdrawal delivered to the Paying Agent through electronic instruction in accordance with the procedures established by Euroclear and Clearstream prior to the close of business on January 22, 2021 (London time).

Participation in the Exchange Offer and Consent Solicitation and exercise of the Put Option are mutually exclusive. In order to validly tender Existing Notes and participate in the Exchange Offer and Consent Solicitation, an Eligible Holder must refrain from providing a written repurchase notice to the Company in connection with its Existing Notes or, if it has already done so, validly withdraw its written repurchase notice. Failure to do so will result in non-participation in the Exchange Offer and Consent Solicitation by such Eligible Holder in respect of the amount of Existing Notes for which a written repurchase notice has been delivered and not withdrawn.

Procedures for Tendering
Existing Notes and Delivering
Consents.....

To participate in the Exchange Offer and Consent Solicitation, an Eligible Holder must validly tender its Existing Notes for exchange pursuant to the Exchange Offer and Consent Solicitation prior to the Exchange and Consent Expiration Deadline pursuant to the procedures described herein.

If you are an Eligible Holder holding the Existing Notes through Euroclear and Clearstream or through a fiduciary holding accounts and you wish to participate in the Exchange Offer and Consent Solicitation, you must tender your Existing Notes pursuant to the procedures described herein by way of an electronic instruction, which must be submitted or delivered through the relevant Clearing System by each Eligible Holder of the Existing Notes who is shown in the records of such Clearing System as a holder of an interest in the Existing Notes, authorizing delivery of your tender to exchange the Existing Notes that are the subject of such electronic instruction (the “**Instruction**”).

No guaranteed delivery procedures are being offered in connection with the Exchange Offer and Consent Solicitation. You must tender your Existing Notes for exchange prior to the Exchange and Consent Expiration Deadline in order to participate and receive the Exchange and Consent Consideration.

Only direct participants in Euroclear or Clearstream may submit Instructions to Euroclear or Clearstream. If you are not a direct participant in Euroclear or Clearstream, you must contact your broker, dealer, bank, custodian, trust company or other nominee to arrange for its direct participant through which you hold the Existing Notes to submit an Instruction on your behalf to the relevant Clearing System prior to the deadline specified by the relevant Clearing System.

Any Eligible Holder that gives Instructions on behalf of a beneficial holder must give separate Instructions with respect to each such beneficial holder.

Eligible Holders who wish to participate in the Consent Solicitation (regardless of whether they are participating in the Exchange Offer) must each validly deliver a Consent-only instruction to Euroclear or Clearstream prior to the Exchange and Consent Expiration Deadline and before the deadlines set by Euroclear and Clearstream, as the case may be.

Eligible Holders who intend to make different elections with respect to portions of their holding of Existing Notes must deliver separate Instructions with respect to each such portion.

Any Instructions must be given with respect to Existing Notes in a minimum principal amount of US\$200,000 and integral multiples of US\$1,000 in excess thereof.

Eligible Holders will be required to certify their Investor Profile when submitting the Instructions.

Upon giving Instructions with respect to any Existing Notes, those Existing Notes will be blocked and may not be transferred until the Exchange Offer and Consent Solicitation is modified or terminated so as to result in a cancellation of such Instructions.

PLEASE NOTE: THE EXCHANGE OFFER AND CONSENT SOLICITATION IS AVAILABLE ONLY TO INVESTORS WHO ARE NOT U.S. PERSONS (WITHIN THE MEANING OF REGULATION S) AND ARE OUTSIDE THE UNITED STATES. U.S. PERSONS (AS DEFINED IN REGULATION S) AND PERSONS LOCATED IN THE UNITED STATES ARE NOT PERMITTED TO TENDER THEIR EXISTING NOTES IN THE EXCHANGE OFFER AND CONSENT SOLICITATION.

Minimum Aggregate Principal
Amount of the Existing Notes
to be Tendered

The Existing Notes being tendered for exchange may only be submitted in a minimum principal amount of US\$200,000 and integral multiples of US\$1,000 in excess thereof. The aggregate principal amount of the New Notes to be issued to any Eligible Holder will be in a minimum principal amount of US\$200,000 and integral multiples of US\$1,000 in excess thereof; provided that, if an Eligible Holder shall elect to partially exchange its Existing Notes into New Notes, the principal amount of Existing Notes retained must be a minimum principal amount of US\$200,000.

Eligible Holders are responsible for ensuring that their Instructions will result in the New Notes they are entitled to receive being at least equal to the minimum principal amount of US\$200,000. Instructions that would result in a principal amount of New Notes below US\$200,000 will be rejected.

Withdrawal and Revocation.....

Instructions in connection with the Exchange Offer and Consent Solicitation are irrevocable, unless withdrawal thereof is required by applicable law.

Acceptance of Tenders; Delivery of Exchange and Consent Consideration

Subject to the terms and conditions described herein, we will accept Instructions that are validly tendered prior to the Exchange and Consent Expiration Deadline. Upon our determination that the conditions to the Exchange Offer and Consent Solicitation have been satisfied, participants in the Exchange Offer and Consent Solicitation who validly gave Instructions, and which Instructions are accepted by us, will receive the Exchange and Consent Consideration on the Settlement Date.

We reserve the absolute right to reject any and all tenders of the Existing Notes not in proper form or any Existing Notes the acceptance for exchange of which may, in the opinion of counsel, be unlawful. We also reserve the absolute right to accept, on a case-by-case basis, any Existing Notes tendered after the Exchange and Consent Expiration Deadline.

Extensions, Amendments and Termination

To the extent that it is legally permitted so to do, we expressly reserve our absolute right to (i) waive any of the conditions described herein, in whole or in part, other than the Minimum Acceptance Amount, (ii) extend the Exchange and Consent Expiration Deadline or Settlement Date, (iii) amend the terms of the Exchange Offer and Consent Solicitation and (iv) modify the form or amount of the consideration to be paid pursuant to this Exchange Offer and Consent Solicitation. If we make a material change in the terms of the Exchange Offer and Consent Solicitation, we will disseminate additional offer materials or, if appropriate, issue a press release setting forth such changes, and will extend the Exchange Offer and Consent Solicitation as we consider appropriate. We have the right, at our sole discretion, to extend the Exchange and Consent Expiration Deadline or the Settlement Date.

Additionally, we expressly reserve the right, at our absolute discretion, to terminate the Exchange Offer and Consent Solicitation at any time if the conditions to the Exchange Offer and Consent Solicitation are not met prior to the Settlement Date.

In the event that the Exchange Offer and Consent Solicitation is terminated, withdrawn or otherwise not consummated prior to the Settlement Date, no consideration will be paid or become payable and no New Notes will be issued or become issuable to Eligible Holders who have validly tendered their Existing Notes pursuant to the Exchange Offer and Consent Solicitation. In any such event, the Existing Notes previously tendered pursuant to the Exchange Offer and Consent Solicitation will be promptly returned to the tendering Eligible Holders.

Consequences of Failure to Exchange Existing Notes

For a description of the consequences of failing to exchange your Existing Notes, see “Risk Factors” and “Description of the Exchange Offer and Consent Solicitation — Certain Consequences to Eligible Holders of Existing Notes Not Participating in the Exchange Offer and Consent Solicitation.”

| | |
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| Brokerage Commissions | No brokerage commissions are payable by the holders of the Existing Notes to us, the Dealer Manager or the Information, Tabulation and Exchange Agent. |
| Dealer Manager | Haitong International Securities Company Limited |
| Information, Tabulation and Exchange Agent | D.F. King has been appointed as the Information, Tabulation and Exchange Agent. You can find the address and telephone number for the Information, Tabulation and Exchange Agent on the back cover of this exchange offer and consent solicitation memorandum. |
| Existing Notes Trustee | Citicorp International Limited |
| New Notes Trustee | Citicorp International Limited |
| Clearing Systems | Euroclear and/or Clearstream (each a “ Clearing System ”) |
| Concurrent New Money Issuance..... | <p>We are conducting a separate concurrent offering to issue and sell Additional New Notes.</p> <p>Any Concurrent New Money Issuance will be on terms and conditions acceptable to us at our sole discretion. Upon issuance, any Additional New Notes sold in the Concurrent New Money Issuance will be on the same terms and form a single series with the corresponding New Notes issued under the Exchange Offer and Consent Solicitation.</p> |
| Use of Proceeds..... | <p>We will not receive any cash proceeds from the Exchange Offer and Consent Solicitation. We will receive cash proceeds from the issuance of the Additional New Notes in the Concurrent New Money Issuance. For the intended use of proceeds of the Concurrent New Money Issuance, see “Appendix A — Preliminary Offering Memorandum for the New Notes — Use of Proceeds.” There is no assurance that we will issue any Additional New Notes in the Concurrent New Money Issuance.</p> |
| Further Information | <p>Questions about the terms of the Exchange Offer and Consent Solicitation should be directed to the Dealer Manager.</p> <p>If you have questions regarding tender or offer procedures or you require additional copies of this exchange offer and consent solicitation memorandum, please contact the Information, Tabulation and Exchange Agent.</p> <p>Beneficial owners may also contact their brokers, dealers, commercial banks, trust companies or other nominee for assistance concerning the Exchange Offer and Consent Solicitation.</p> <p>All documents related to the Exchange Offer and Consent Solicitation, including any updates and announcements, will be made available, subject to eligibility, on the Exchange and Consent Website.</p> |

SUMMARY OF THE NEW NOTES

Please refer to the section entitled “Appendix A — Preliminary Offering Memorandum for the New Notes — The Offering” for a summary of the New Notes. We expect to announce the pricing terms of the Concurrent New Money Issuance as soon as practicable following any such pricing or, if we decide not to proceed with the Concurrent New Money Issuance (or any portion thereof), we will announce such decision as soon as practicable following such decision being made.

SUMMARY TIMETABLE

The following summarizes the current schedule for the Exchange Offer and Consent Solicitation. Please note that the expiration of the Exchange Offer and Consent Solicitation and the settlement of the New Notes, as well as the other events listed below, may be earlier or later than indicated below. This summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information appearing elsewhere in this exchange offer and consent solicitation memorandum.

In relation to the times and dates indicated below, Eligible Holders of the Existing Notes should note the particular practices and policies of the relevant Clearing System regarding their communications deadlines, which will determine the latest time at which tenders of the Existing Notes for exchange may be delivered to the relevant Clearing System (which may be earlier than the deadlines set forth below) so that they are received by the Information, Tabulation and Exchange Agent within the deadlines set forth below.

All notices to Eligible Holders of the Existing Notes will be released through delivery to the Clearing Systems for communication to direct participants.

| Date | Event |
|--|--|
| January 12, 2021 | <p>Commencement of the Exchange Offer and Consent Solicitation and announcement via the websites of the Hong Kong Stock Exchange, the SGX-ST and the Exchange and Consent Website and through Euroclear or Clearstream, as applicable.</p> <p>Exchange offer and consent solicitation memorandum delivered to Eligible Holders of the Existing Notes who are non-U.S. persons outside the United States.</p> |
| January 18, 2021 (4:00 p.m. London time) | <p>Exchange and Consent Expiration Deadline. This being the last date and time on which Eligible Holders of the Existing Notes who validly tender Existing Notes (and as such, are deemed to have provided a Consent under the Consent Solicitation) are eligible to receive the relevant Exchange and Consent Consideration, as this is the last date and time for Eligible Holders of the Existing Notes to participate in the Exchange Offer and Consent Solicitation.</p> <p>This is also the last date and time for Eligible Holders who wish to participate in the Consent Solicitation by delivering Consent-only instructions with respect to their holding of the Existing Notes, regardless of whether they are participating in the Exchange Offer.</p> |
| January 18, 2021, or as soon as practicable after the Exchange and Consent Expiration Deadline . | <p>Announcement of (i) the amount of tenders for exchange received and accepted and the amount of Consents received prior to the Exchange and Consent Expiration Deadline, whether Requisite Consent has been received, whether the Minimum Acceptance Amount has been tendered and the final total aggregate principal amount of the New Notes to be issued to Eligible Holders in exchange for the Existing Notes validly tendered, accepted and exchanged, and (ii) pricing of the Concurrent New Money Issuance (if any).</p> |
| On or about January 25, 2021 | <p>Subject to satisfaction of the conditions as set forth under “The Exchange Offer and Consent Solicitation — Conditions to the Exchange Offer and Consent Solicitation,” execution of the Supplemental Indenture promptly after receipt of the Requisite Consent, settlement of the New Notes and delivery of the Exchange and Consent Consideration to Eligible Holders whose Existing Notes have been validly tendered and accepted for exchange.</p> |

On or about January 26, 2021 Listing of the New Notes on the Hong Kong Stock Exchange and the SGX-ST.

All references in this exchange offer and consent solicitation memorandum to times are to London time, unless we state otherwise. The above dates are indicative only.

We reserve the right to extend the Exchange and Consent Expiration Deadline at our sole discretion. In such case, the date on which the notice of the results of the Exchange Offer and Consent Solicitation will be delivered and the Settlement Date will be adjusted accordingly. The Eligible Holders of the Existing Notes should inform themselves of any earlier deadlines that may be imposed by the Clearing Systems and/or any intermediaries, which may affect the timing of an Instruction for exchange.

Subject to the satisfaction or waiver of the conditions set forth under “The Exchange Offer and Consent Solicitation — Conditions to the Exchange Offer and Consent Solicitation,” as soon as practicable following the receipt of the Requisite Consents, we intend to execute the Supplemental Indenture with the Existing Notes Trustee providing for the Proposed Amendments as described in the section entitled “Proposed Amendments” in this exchange offer and consent solicitation memorandum. Pursuant to the terms of the Supplemental Indenture, which are set out in “Appendix B — Form of Supplemental Indenture” to this exchange offer and consent solicitation memorandum, which will be effective upon execution, the provisions to be eliminated or modified by the Proposed Amendments will remain unchanged until the Existing Notes that were validly tendered are accepted for exchange pursuant to the terms of the Exchange Offer and Consent Solicitation and will become operative concurrently with the consummation of the Exchange Offer.

The Company intends to publicly announce the commencement date of the Exchange Offer and Consent Solicitation, any extensions of the Expiration Date, other notifications or amendments relating to the Exchange Offer and Consent Solicitation and the results of the Exchange Offer and Consent Solicitation by the issue of a press release and/or a notice sent via the Euroclear or Clearstream and announcement on the websites of the Hong Kong Stock Exchange and the Exchange and Consent Website.

RISK FACTORS

You should carefully consider the risks and uncertainties described below and other information contained in this exchange offer and consent solicitation memorandum before investing in the New Notes. The risks and uncertainties described below may not be the only ones that we face. Additional risks and uncertainties that we are not aware of or that we currently believe are immaterial may also materially and adversely affect our business, financial condition or results of operations. If any of the possible events described below occurs, our business, financial condition or results of operations could be materially and adversely affected. In such case, we may not be able to satisfy our obligations under the New Notes, and you could lose all or part of your investment. For further risks, see “Appendix A — Preliminary Offering Memorandum for the New Notes — Risk Factors.”

RISKS RELATING TO THE EXCHANGE OFFER AND CONSENT SOLICITATION GENERALLY

Upon consummation of the Exchange Offer and Consent Solicitation, liquidity of the market for outstanding Existing Notes may be substantially reduced, and market prices for outstanding Existing Notes may decline as a result.

The trading market for Existing Notes that are not exchanged for New Notes or for which the Put Option has not been exercised could become more limited than the existing trading market for the Existing Notes and could cease to exist altogether due to the reduction in the principal amount of the Existing Notes outstanding upon consummation of the Exchange Offer and Consent Solicitation and expected settlement of the Put Option. A more limited trading market might adversely affect the liquidity, market price and price volatility of the Existing Notes. If a market for Existing Notes that are not exchanged exists or develops, the Existing Notes may trade at a discount to the price at which they would trade if the principal amount outstanding were not reduced. There can be no assurance that an active market in the Existing Notes will exist, develop or be maintained, or as to the prices at which the Existing Notes may trade, after the Exchange Offer and Consent Solicitation is consummated.

We expressly reserve the right to purchase any Existing Notes that remain outstanding after the consummation of the Exchange Offer and Consent Solicitation.

Whether or not the Exchange Offer and Consent Solicitation is consummated, we expressly reserve our absolute right, at our sole discretion, from time to time to redeem or purchase any Existing Notes that remain outstanding after the consummation of the Exchange Offer and Consent Solicitation through open market or privately negotiated transactions, one or more tender offers or additional exchange offers or otherwise, on terms that may differ from the Exchange Offer and Consent Solicitation and could be for cash or other consideration, or to exercise any of our other rights, including redemption rights, under the indenture governing the Existing Notes. In addition, holders of Existing Notes may exercise their Put Option and require us to repurchase their Existing Notes on the Put Option Date.

The Exchange Offer and Consent Solicitation may be cancelled, delayed or amended.

We are not obligated to complete the Exchange Offer and Consent Solicitation and the Exchange Offer and Consent Solicitation may be terminated, as described more fully below in “Description of the Exchange Offer and Consent Solicitation — Conditions to the Exchange Offer and Consent Solicitation.” While we reserve the right to waive certain conditions, should the Requisite Consents or the Minimum Acceptance Amount not be obtained, we will not be able to complete the Exchange Offer and Consent Solicitation. Even if the Exchange Offer and Consent Solicitation is completed, it may not be completed on the schedule described in this exchange offer and consent solicitation memorandum. Accordingly, participating Eligible Holders may have to wait longer than expected to receive their Exchange and Consent Consideration (or to have their Existing Notes returned to them in the event that we terminate the Exchange Offer and Consent Solicitation), during which time those Eligible Holders will not be able to effect transfers of their Existing Notes tendered in the Exchange Offer and Consent Solicitation. In addition, subject to applicable laws, we have the right to amend the terms of the Exchange Offer and Consent Solicitation prior to the Exchange and Consent Expiration Deadline.

We may choose to terminate or amend certain parts of the Exchange Offer and Consent Solicitation, but retain other aspects unchanged. In particular, we may terminate the Exchange Offer and Consent Solicitation or amend the terms of the Exchange Offer and Consent Solicitation with respect to the Existing Notes, including the relevant timing of the Exchange Offer and Consent Solicitation. In such event, we will issue announcements of such decisions accordingly.

The proposed elimination of, or amendments to, provisions in the Existing Notes Indenture will reduce the protection afforded to remaining holders of Existing Notes and could materially and adversely affect the credit risk inherent in the Existing Notes.

The Existing Notes not tendered pursuant to the Exchange Offer and Consent Solicitation will, subject to exercise of repurchase rights contained in the Existing Notes Indenture, remain outstanding. If the Proposed Amendments become operative, certain restrictive covenants and relevant provisions contained in the Existing Notes Indenture will be eliminated or amended and noteholders who elect to not tender all of their Existing Notes pursuant to the Exchange Offer will no longer be entitled to the benefits of such provisions. The Existing Notes Indenture, as so amended, will continue to govern the terms of all Existing Notes that remain outstanding after the consummation of the Exchange Offer and Consent Solicitation. Any such actions that would be permitted, or noteholders' rights that would be eliminated or restricted, will increase the credit risk faced by non-exchanging noteholders who do not exercise the Put Option and may otherwise adversely affect the interests of such noteholders. In addition, the prices at which the remaining outstanding Existing Notes may trade could be negatively impacted. See "Proposed Amendments" for further details.

If the Proposed Amendments are adopted, we will have increased flexibility to incur additional indebtedness and create additional liens that we could otherwise not be able to, had the Proposed Amendments not been adopted

One of the principal amendments for the Existing Notes Indenture is to eliminate certain restrictive covenants relating to liens by modifying the definition of Permitted Liens (as defined in the Existing Notes Indenture), to cover liens securing refinancing indebtedness of any PRC Restricted Subsidiary (as defined in the Existing Notes Indenture). In addition, the definition of Permitted Indebtedness (as defined in the Existing Notes Indenture) will be amended to include a carve-out for the New Notes and the definition of Permitted Liens (as defined in the Existing Notes Indenture) will be amended to include a carveout for liens securing the New Notes. See "Proposed Amendments." Therefore, if we obtain Requisite Consents for the Proposed Amendments, we will have increased flexibility to incur additional indebtedness and create additional liens that we could otherwise not be able to, had the Proposed Amendments not been adopted.

Non-exchanging noteholders will not have the benefit of the Collateral and the Personal Guarantees.

While the Existing Notes are not secured, the New Notes will be secured by the Collateral for the benefits of holders for the New Notes and will enjoy benefit of the Personal Guarantees. Therefore, upon the consummation of the Exchange Offer and Consent Solicitation and settlement of the Put Option, any Existing Notes that remain outstanding will effectively be subordinated to the New Notes to the extent of the value of the Collateral serving as security therefor, and any other secured obligations of the Company, the Subsidiary Guarantors and the JV Subsidiary Guarantors (if any). In addition, the New Notes will be guaranteed by our controlling shareholder and his spouse, Mr. ZHANG Zhongsun and Ms. RUAN Wenjuan, who will not guarantee the Existing Notes. Moreover, amendments or waivers under the New Notes shall require consent of not less than 75% (in terms of aggregate principal amount) of non-affiliate holders of outstanding New Notes. Amendments or waivers of any provision relating to the Personal Guarantees and Share Charges under the New Notes in a manner that adversely affects the Holders shall require consent of non-affiliate holders of not less than 80% of outstanding New Notes. Without prejudice to the LTV and other requirements set forth in the New Notes Indenture, neither, Langfang Guoxing nor Qidong Glory shall be permitted to incur additional debt before full repayment of its existing loans and the New Notes and the New Notes shall rank senior in right of payment to any

existing and future intercompany claims at Langfang Guoxing or Qidong Glory except the contractually subordinated debt or to which any assets held by any such entity is subject. Furthermore, under the New Notes Indenture, we are required to appoint an appraiser to conduct valuation of the assets held by Langfang Guoxing and Qidong Glory on semi-annual basis. The ratio of the outstanding amounts of the New Notes divided by the sum of the net assets of the Langfang Guoxing and Qidong Glory shall not exceed 80%. Should the LTV exceed 80%, we are required to repay such amount of the New Notes, or provide pledges over shares of one or more of our other subsidiaries, such that, after taking into account of the repayment or such other subsidiaries' assets and debt, the LTV does not exceed 80%. See "Summary of the Exchange Offer and Consent Solicitation — Summary of Material Differences between the Existing Notes and the New Notes" for further information. The credit risk faced by non-exchanging noteholders who do not exercise the Put Option will be higher than exchanging noteholders in the New Notes upon consummation of the Exchange Offer and Consent Solicitation and they will have less protection than holders of the New Notes in the event of an Event of Default and will not have any recourse to enforce against any collateral or our controlling shareholder.

Failure to obtain tenders of the Minimum Acceptance Amount or Requisite Consents could increase our default risk under the Existing Notes.

If the Minimum Acceptance Amount is not tendered, the Requisite Consents are not obtained, or if any of the other conditions as described in "Description of the Exchange Offer and Consent Solicitation — Conditions to the Exchange Offer and Consent Solicitation" are not satisfied or waived, the Exchange Offer may not be consummated or the Proposed Amendments may not be effected for the Existing Notes Indenture and if that happens, we may not be able to consummate the Concurrent New Money Issuance or otherwise refinance the Existing Notes or fund the Put Option or other existing indebtedness, which may impair our ability to repay the Existing Notes or other indebtedness when due.

The Exchange and Consent Consideration to be received in the Exchange Offer and Consent Solicitation does not reflect any market valuation of the Existing Notes or the New Notes.

We have made no determination that the consideration to be received in the Exchange Offer and Consent Solicitation represents a fair valuation of the Existing Notes or the New Notes. The Exchange and Consent Consideration should not be construed as assurance or an indication of, and may not accurately reflect, the current or future market value of the Existing Notes or the New Notes. We have not obtained a fairness opinion from any financial advisor about the fairness to us or to you of the consideration to be received by holders of the Existing Notes. Accordingly, none of us, our board of directors, the Subsidiary Guarantors, the Personal Guarantors, the JV Subsidiary Guarantors (if any), the Dealer Manager, the Information, Tabulation and Exchange Agent, the Existing Notes Trustee, the New Notes Trustee and any other person is making any recommendation as to whether you should tender any Existing Notes for exchange and give you consents in the Exchange Offer and Consent Solicitation.

Your decision to tender any Existing Notes for the Exchange and Consent Consideration may expose you to the risk of nonpayment for a longer period of time.

The Existing Notes mature on February 27, 2022. If you tender Existing Notes for New Notes and, following the maturity date of your tendered Existing Notes but prior to the maturity date of the New Notes, we were to become subject to a bankruptcy or similar proceedings, the holders of such earlier-maturing Existing Notes who did not exchange their Existing Notes for New Notes could be paid in full prior to such event and there would exist a risk that holders of the Existing Notes who exchanged their Existing Notes for later-maturing New Notes would not be paid in full, if at all. Your decision to tender your Existing Notes for later-maturing New Notes should be made with the understanding that the lengthened maturity of such New Notes exposes you to the risk of nonpayment for a longer period of time.

Eligible Holders of the Existing Notes may not withdraw their instructions except as required by applicable law.

Instructions in connection with the Exchange Offer and Consent Solicitation are irrevocable. Eligible Holders who tender their Existing Notes or who give Consent-only instruction with respect to their holding of the Existing Notes may not withdraw their instructions except in limited circumstances as required by applicable law as described in this exchange offer and consent solicitation memorandum. Withdrawal rights will only be provided as, and if, required by applicable law. As a result, there may be an unusually long time during which Eligible Holders of Existing Notes may be unable to effect transfers of their Existing Notes tendered for exchange.

You are responsible for complying with the procedures of the Exchange Offer and Consent Solicitation. You may not receive Exchange and Consent Consideration in the Exchange Offer and Consent Solicitation if the procedures for the Exchange Offer and Consent Solicitation (including instructions relating to the Put Option) are not followed.

Eligible Holders are responsible for complying with all of the procedures for offerings to exchange the Existing Notes and delivery of the Consents. We will issue New Notes in exchange for your Existing Notes only if you tender the applicable Existing Notes and deliver a properly submitted electronic instruction through Euroclear or Clearstream, as applicable. In addition, if you wish to participate in the Consent Solicitation by delivering a Consent-only instruction, must validly deliver such instruction to Euroclear or Clearstream prior to the Exchange and Consent Expiration Deadline and before the deadlines set by Euroclear and Clearstream, as the case may be. At the same time, (i) you must not have submitted a written repurchase notice to exercise the Put Option in connection with such applicable Existing Notes or (ii) to the extent you have submitted a written repurchase notice to exercise the Put Option in connection with such applicable Existing Notes, you must have validly withdrawn such written repurchase notice. You should allow sufficient time to ensure timely delivery of the electronic instruction and the necessary documents. None of the Company, the Subsidiary Guarantors, the Personal Guarantors, the JV Subsidiary Guarantors (if any), the Dealer Manager, the Information, Tabulation and Exchange Agent, the Existing Notes Trustee and the New Notes Trustee assumes any responsibility for informing the holders of the Existing Notes of irregularities in any electronic instruction to Euroclear or Clearstream, as applicable, or with respect to the acceptance of offers to exchange. Prior to the Settlement Date, no assurance can be given that the Exchange Offer and Consent Solicitation will be completed. This may depend upon the satisfaction or waiver of the conditions of the Exchange Offer and Consent Solicitation. Upon giving a blocking instruction relating to the securities account where Existing Notes are held in a relevant Clearing System, Eligible Holders should be aware that they may not transfer title to such Existing Notes to other persons and may suffer losses if the market price of the Existing Notes changes and the Exchange Offer and Consent Solicitation, in respect of that holder or generally, is not completed for whatever reason.

Eligible Holders holding the Existing Notes in Euroclear or Clearstream should note the particular practices and policies of Euroclear or Clearstream, as applicable, regarding their communications deadlines, which will determine the latest time at which tenders of the Existing Notes for exchange may be delivered to Euroclear or Clearstream, as applicable, (which may be earlier than the deadlines set forth in this exchange offer and consent solicitation memorandum) so that they are received by the Information, Tabulation and Exchange Agent in respect of the Exchange Offer and Consent Solicitation within the deadlines set forth in this exchange offer and consent solicitation memorandum. None of the Company, the Subsidiary Guarantors, the Personal Guarantors, the JV Subsidiary Guarantors (if any), the Dealer Manager, the Information, Tabulation and Exchange Agent, the Existing Notes Trustee and the New Notes Trustee will be responsible for the communication of acceptances and corresponding instruction notices by:

- Beneficial owners to the direct participant through which they hold the Existing Notes; or
- The direct participant to the Euroclear or Clearstream, as applicable.

If you are the beneficial owner of the Existing Notes that are registered in the name of your broker, dealer, commercial bank, trust company or other nominee or custodian, and you wish to tender in the Exchange Offer and Consent Solicitation, you should promptly contact the person in whose name your Existing Notes are registered and instruct that person to tender on your behalf and to properly follow the procedures.

Your Existing Notes generally will be blocked from the date of Instruction until the earlier of (i) consummation and (ii) termination of the Exchange Offer and Consent Solicitation.

Participating Eligible Holders should be mindful that they are authorizing the relevant Clearing System to block their position in the Existing Notes until the Settlement Date, or termination or withdrawal of the Exchange Offer and Consent Solicitation, as applicable.

Eligible Holders are responsible for compliance with the exchange and transfer restrictions.

Each Eligible Holder of the Existing Notes is referred to the restrictions herein relating to the Exchange Offer and Consent Solicitation and any transfer of the New Notes. Non-compliance with these restrictions could result in, among other things, the rejection to exchange, unwinding of trades and/or heavy penalties.

We did not perform any tax analysis regarding the tax consequences of the Exchange Offer and Consent Solicitation to investors.

This exchange offer and consent solicitation memorandum does not discuss the tax consequences to Eligible Holders and beneficial owners of the Existing Notes. Eligible Holders and beneficial owners are urged to consult their own independent financial or other professional advisors regarding possible tax consequences of the Exchange Offer and Consent Solicitation (including the exchange of Existing Notes for New Notes) to them under the laws of any relevant jurisdiction. Such Eligible Holders and beneficial owners are liable for their own taxes and have no recourse to us, the Subsidiary Guarantors, the Personal Guarantors, the Dealer Manager, the Information, Tabulation and Exchange Agent, the Existing Notes Trustee or the New Notes Trustee with respect to taxes arising in connection with the Exchange Offer and Consent Solicitation. For certain tax consequences of the ownership and disposition of the New Notes, see the section entitled “Taxation” in “Appendix A — Preliminary Offering Memorandum for the New Notes.”

FURTHER RISKS

For risks relating to (i) our business, (ii) the real estate industry in the PRC, (iii) the PRC, (iv) the New Notes, and (v) the Subsidiary Guarantees, the JV Subsidiary Guarantees, the Collateral and the Personal Guarantees, see “Appendix A — Preliminary Offering Memorandum for the New Notes — Risk Factors.”

QUESTIONS AND ANSWERS ABOUT THE EXCHANGE OFFER AND CONSENT SOLICITATION

Q: Why is the Company making the Exchange Offer and Consent Solicitation?

A: We are conducting the Exchange Offer and Consent Solicitation to refinance the Existing Notes and improve our debt structure, enabling us to extend our debt maturity profile, develop more steadily, strengthen our balance sheet and improve cash flow management.

Assuming that the Exchange Offer and Consent Solicitation is consummated, and depending on market conditions, we may exercise our redemption rights under the indenture governing the Existing Notes. If the Concurrent New Money Issuance is consummated, we will use the net cash proceeds from the Concurrent New Money Issuance to refinance, among others, the Existing Notes with the remainder for general corporate purposes.

Q: What amendments to the Existing Notes Indenture is the Company seeking?

A: The principal amendments for the Existing Notes Indenture are to (i) allow for the issuance of the New Notes, (ii) eliminate certain restrictive covenants relating to liens by modifying certain provisions in the Existing Notes Indenture and (iii) align certain restrictive covenants relating to affiliate transactions in line with the terms of the New Notes, which may be eliminated or amended with Consents from holders of a majority principal amount of the outstanding Existing Notes. See “The Proposed Amendments” and the form of the Supplemental Indenture in Appendix B hereto for further details.

Q: What will I receive if I tender my Existing Notes in the Exchange Offer and Consent Solicitation?

A: For each US\$1,000 principal amount of outstanding Existing Notes that is validly tendered prior to the Exchange and Consent Expiration Deadline and accepted for exchange (and therefore deemed to have delivered a Consent under the Consent Solicitation), an Eligible Holder will receive the Exchange and Exchange and Consent Consideration consisting of: (a) US\$1,077.041 in aggregate principal amount of the New Notes and (b) cash in lieu of any fractional amount of the New Notes not issued (rounded to the nearest US\$0.01, with US\$0.005 rounded upwards). For the avoidance of doubts, once accepted by the Company for exchange, no cash payment (including accrued but unpaid interest from August 27, 2020 to the Settlement Date) in respect of the Existing Notes will be paid to the Eligible Holders who tender such Existing Notes for exchange. See “Summary of the Exchange Offer and Consent Solicitation” and “Description of the Exchange Offer and Consent Solicitation — Exchange and Consent Consideration” for further details.

Q: What are the consequences of not tendering in the Exchange Offer and Consent Solicitation?

A: Following the consummation of the Exchange Offer and Consent Solicitation, the trading market for Existing Notes that are not exchanged or for which the Put Option has not been exercised could become more limited than the existing trading market for the Existing Notes and could cease to exist altogether due to the reduction in the amount of the Existing Notes outstanding upon consummation of the Exchange Offer and Consent Solicitation and expected settlement of the Put Option. A more limited trading market might adversely affect the liquidity, market price and price volatility of the Existing Notes. See the section entitled “Risk Factors — Risks Relating to the Exchange Offer and Consent Solicitation Generally — Upon consummation of the Exchange Offer and Consent Solicitation, liquidity of the market for outstanding Existing Notes may be substantially reduced, and market prices for outstanding Existing Notes may decline as a result” for additional risk disclosure.

In addition, certain restrictive covenants and relevant provisions contained in the Existing Notes Indenture will be eliminated or amended and noteholders who elect to not tender all of their Existing Notes pursuant to the Exchange Offer will no longer be entitled to the benefits of such provisions. Non-exchanging noteholders who do not exercise the Put Option will have less protection under the Existing Notes Indenture after the consummation of the Consent Solicitation. Further, they will have less protection than holders of the New Notes which will be secured by the Collateral, whereas the remaining Existing Notes are not so secured. In addition, the New Notes will be guaranteed by our controlling shareholder and his spouse, Mr. ZHANG Zhangsun and Ms. RUAN Wenjuan, who will not guarantee the Existing Notes. See “Risk Factors — Risks Relating

to the Exchange Offer and Consent Solicitation Generally — The proposed elimination of, or amendments to, provisions in the Existing Notes Indenture will reduce the protection afforded to remaining holders of Existing Notes and could materially and adversely affect the credit risk inherent in the Existing Notes” and “Risk Factors — Risks Relating to the Exchange Offer and Consent Solicitation Generally — Non-exchanging noteholders will not have the benefit of the Collateral and the Personal Guarantees.”

Q: How do the Existing Notes differ from the New Notes to be issued in the Exchange Offer and Consent Solicitation?

A: The interest rate on the Existing Notes is 13.5% per annum and the Existing Notes will mature in 2022.

The New Notes will mature on the third anniversary of the Settlement Date. The interest rate of the New Notes is 14.25%.

The New Notes will be secured by the Collateral, while the Existing Notes will remain unsecured. The New Notes will also be guaranteed by our controlling shareholder and his spouse, Mr. ZHANG Zhangsun and Ms. RUAN Wenjuan, who will not guarantee the Existing Notes. In addition, amendments of the restrictive covenants under the New Notes shall require consent of not less than 75% (in terms of principal amount) of non-affiliate holders of the outstanding New Notes, and amendments or waivers of any provision relating to the Personal Guarantees and Share Charges under the New Notes in a manner that adversely affects the Holders shall require consent of non-affiliate holders of not less than 80% of outstanding New Notes. Moreover, certain restrictive covenants and relevant provisions contained in the Existing Notes Indenture will be eliminated or amended and noteholders who elect to not tender all of their Existing Notes pursuant to the Exchange Offer will no longer be entitled to the benefits of such provisions. See “Summary of the Exchange Offer and Consent Solicitation — Summary of Material Differences between the Existing Notes and the New Notes,” “Risk Factors — Risks Relating to the Exchange Offer And Consent Solicitation Generally — The proposed elimination of, or amendments to, provisions in the Existing Notes Indenture will reduce the protection afforded to remaining holders of Existing Notes and could materially and adversely affect the credit risk inherent in the Existing Notes” and “Risk Factors — Risks Relating to the Exchange Offer And Consent Solicitation Generally — Non-exchanging noteholders will not have the benefit of the Collateral and the Personal Guarantees.”

For further details regarding the New Notes, see “Appendix A — Preliminary Offering Memorandum for the New Notes — Risk Factors — Risks Relating to the New Notes.”

Q: Are there any conditions to the consummation of the Exchange Offer and Consent Solicitation?

A: Our obligation to complete the Exchange Offer and Consent Solicitation is conditioned upon, among other things, the following: (i) the valid tender of Existing Notes in an aggregate principal amount not less than the Minimum Acceptance Amount; (ii) the receipt of Requisite Consents of outstanding Existing Notes not owned by the Company or any of its affiliates; (iii) there being no material adverse change in the market from the date of this exchange offer and consent solicitation memorandum to the Settlement Date; (iv) an affirmative determination by us that accepting the exchanges, paying the Exchange and Consent Consideration and effecting the transactions contemplated hereby are in our best interests; and (v) the satisfaction of the other conditions described in “Description of the Exchange Offer and Consent Solicitation — Conditions to the Exchange Offer and Consent Solicitation.”

Subject to applicable law, we may terminate or withdraw the Exchange Offer and Consent Solicitation if any of the conditions are not satisfied or waived by the Settlement Date. We may also extend the Exchange Offer and Consent Solicitation from time to time until the conditions are satisfied or waived.

Although we have no present plans or arrangements to do so, we reserve the right to amend, modify or waive, at any time, other than the Minimum Acceptance Amount, the terms and conditions of the Exchange Offer and Consent Solicitation, subject to applicable law. We will give you notice of any amendments, modifications or waivers as and if required by applicable law.

Q: When will the Exchange Offer and Consent Solicitation expire?

A: The Exchange Offer and Consent Solicitation will expire at 4:00 p.m., London time on January 18, 2021, subject to our right to extend or earlier terminate that time and date at our absolute discretion.

Q: Under what circumstances can the Exchange Offer and Consent Solicitation be extended, amended or terminated?

A: We reserve the right to extend the Exchange Offer and Consent Solicitation at our absolute discretion for any reason. We expressly reserve the right, at any time, to amend the terms of the Exchange Offer and Consent Solicitation in any respect, other than the Minimum Acceptance Amount, prior to the Exchange and Consent Expiration Deadline, subject to applicable law. Further, we may extend the Exchange Offer and Consent Solicitation if we make a material change in the terms of the Exchange Offer and Consent Solicitation or in the information contained in this exchange offer and consent solicitation memorandum or waive a material condition to the Exchange Offer and Consent Solicitation. During any extension of the Exchange Offer and Consent Solicitation, Existing Notes that were previously tendered for exchange will remain subject to the Exchange Offer and Consent Solicitation. Any waiver, amendment or modification of the Exchange Offer and Consent Solicitation, including any change in the Exchange and Consent Consideration, will apply to all Existing Notes previously validly tendered. We reserve the right to terminate the Exchange Offer and Consent Solicitation at any time prior to the Settlement Date if any conditions are not met. For more information regarding our right to extend, amend or terminate the Exchange Offer and Consent Solicitation, see “Description of Exchange Offer and Consent Solicitation — Exchange and Consent Expiration Deadline; Extensions; Amendments; Termination.”

Q: When will the Company issue the New Notes?

A: Assuming the conditions to the Exchange Offer and Consent Solicitation are satisfied or waived, we anticipate that we will issue the New Notes and settle the Exchange Offer and Consent Solicitation, including the delivery and payment of the Exchange and Consent Consideration, on or about January 25, 2021, unless the Exchange Offer and Consent Solicitation is extended or earlier terminated.

Q: Can I submit a Consent only with respect to my Existing Notes under the Consent Solicitation but not participate in the Exchange Offer?

A: Yes, you will have an option to participate in the Consent Solicitation with respect to your holding of the Existing Notes by delivering a Consent-only instruction, regardless of whether you are participating in the Exchange Offer. See “Description of the Exchange Offer and Consent Solicitation — Procedures for Tendering Existing Notes and Delivering Consents” for further information.

Q: What are my rights if I change my mind after I tender my Existing Notes?

A: Tenders of Existing Notes or delivery of Consent may not be withdrawn or revoked once submitted unless we are required by law to permit such withdrawal or revocation.

Q: Will the Company receive any cash proceeds from the Exchange Offer and Consent Solicitation?

A: No. See “Use of Proceeds.”

Q: When will the Company purchase or redeem the Existing Notes?

A: Existing Notes tendered in the Exchange Offer and Consent Solicitation pursuant to valid and accepted Instructions will be exchanged on the Settlement Date and subsequently canceled.

Whether or not the Exchange Offer and Consent Solicitation is consummated, we expressly reserve the absolute right, at our sole discretion, from time to time to redeem or purchase any Existing Notes that remain outstanding after the Exchange and Consent Expiration Deadline through open market or privately negotiated transactions, one or more additional tenders or exchange offers or otherwise, on terms that may differ from the Exchange Offer and Consent Solicitation and could be for cash or other consideration, or to exercise any of our redemption rights, including redemption rights, under the indenture governing the Existing Notes.

Q: Can I transfer my Existing Notes after submitting an Instruction to exchange?

A: Upon giving Instructions with respect to any Existing Notes, an Eligible Holder will agree that its Existing Notes will be blocked from transferring in the relevant account in the relevant Clearing System from the date the relevant Instruction is submitted until the Settlement Date or the date of termination of the Exchange Offer and Consent Solicitation (including where such Existing Notes are not accepted by the Company for exchange), whichever is earlier.

Q: What happens if some or all of my Existing Notes are not accepted?

A: If we decide not to accept some or all of your Existing Notes because of an invalid tender (including due to an outstanding written repurchase notice in connection with such Existing Notes), the occurrence of the other events set forth in this exchange offer and consent solicitation memorandum or otherwise, the Existing Notes not accepted by us for the Exchange Offer and Consent Solicitation will be credited back to the tendering holder’s account at Euroclear or Clearstream, as applicable. Any Existing Notes for which the Put Option has been exercised will be repurchased on the Put Option Date.

Q: Will I have to pay any fees or commissions if I tender my Existing Notes in the Exchange Offer and Consent Solicitation?

A: If your Existing Notes are held through a broker or other nominee who tenders the Existing Notes on your behalf, your broker may charge you a commission for doing so. You should consult with your broker or nominee to determine whether any charges apply. Otherwise, you will not be required to pay any fees or commissions to us, the Dealer Manager or the Information, Tabulation and Exchange Agent in connection with the Exchange Offer and Consent Solicitation.

Q: How do I tender my Existing Notes for exchange in the Exchange Offer and Consent Solicitation?

A: Please see “Description of Exchange Offer and Consent Solicitation — Procedures for Tendering Existing Notes and Delivering Consents.” For further information, please contact D.F. King, who has been retained by us as the Information, Tabulation and Exchange Agent for the Exchange Offer and Consent Solicitation, or consult your broker, dealer, commercial bank, trust company or other nominee or custodian for assistance.

PLEASE NOTE: The Exchange Offer and Consent Solicitation is available only to holders who are not U.S. persons (within the meaning of Regulation S) and are outside the United States. To participate in the Exchange Offer and Consent Solicitation, a holder of Existing Notes must either hold such Existing Notes through a direct participant in Euroclear or Clearstream or arrange for the transfer of its Existing Notes so that they are held through such a direct participant. **U.S.**

PERSONS (WITHIN THE MEANING OF REGULATION S) AND PERSONS LOCATED IN THE UNITED STATES ARE NOT PERMITTED TO TENDER EXISTING NOTES IN THE EXCHANGE OFFER AND CONSENT SOLICITATION.

Q: Will the New Notes be freely tradable?

A: The transfer of the New Notes is restricted. The New Notes will not be registered under, and we are not obligated to register the New Notes under, the Securities Act or the securities laws of any other jurisdiction and, unless so registered, may not be offered or sold except pursuant to an exemption from, or a transaction not subject to, the registration requirements of the Securities Act and any other applicable laws. See “Transfer Restrictions” in “Appendix A — Preliminary Offering Memorandum for the New Notes.” We have not agreed to or otherwise undertaken to register the New Notes, and have no intention to do so. There can be no assurance as to the development or liquidity of any market for the New Notes.

Q: To whom should I direct any questions?

A: Questions about the terms of the Exchange Offer and Consent Solicitation should be directed to the Dealer Manager. If you have questions regarding exchange procedures or require additional copies of this exchange offer and consent solicitation memorandum, please contact the Information, Tabulation and Exchange Agent. Contact information for the Dealer Manager and the Information, Tabulation and Exchange Agent are set forth on the back cover of this exchange offer and consent solicitation memorandum. Beneficial owners may also contact their brokers, dealers, commercial banks, trust companies or other nominees or custodians for assistance concerning the Exchange Offer and Consent Solicitation. All documents related to the Exchange Offer and Consent Solicitation will be made available, subject to eligibility, on the Exchange and Consent Website.

Q: What is an Investor Profile Election?

A: Pursuant to the Hong Kong Stock Exchange, an Eligible holder of the Existing Notes is required to certify its Investor Profile when submitting its Instruction. “Investor Profile” refers to categories of professional investors determined pursuant to the Securities and Futures Ordinance (Cap. 571) of Hong Kong. See “Description of the Exchange Offer and Consent Solicitation — Procedures for Tendering Existing Notes and Delivering Consents — Investor Profile Election.”

USE OF PROCEEDS

We will not receive any cash proceeds from the Exchange Offer and Consent Solicitation. Any Existing Notes exchanged in connection with the Exchange Offer and Consent Solicitation will be cancelled.

DESCRIPTION OF THE EXCHANGE OFFER AND CONSENT SOLICITATION

GENERAL

We intend to conduct the Exchange Offer and Consent Solicitation in accordance with the applicable rules and regulations of any jurisdiction where the offer of the New Notes, the exchange of the Existing Notes and the solicitation of Consents are permitted. The Exchange Offer and Consent Solicitation will only be made to, and the New Notes are being offered and will be issued only to, Eligible Holders of Existing Notes who have complied with the procedures set out herein, or on whose behalf their brokers, dealers, custodians, trust companies or other nominees or custodians have complied with the procedures herein and confirmed and represented that such holders are non-U.S. persons located outside the United States, or certain fiduciaries holding accounts for the benefit of non-U.S. persons outside the United States, as those terms are defined in Regulation S under the Securities Act.

PURPOSE OF THE EXCHANGE OFFER AND CONSENT SOLICITATION.

We are conducting the Exchange Offer and Consent Solicitation to refinance the Existing Notes and improve our debt structure to enable us to extend our debt maturity profile, develop more steadily, strengthen our balance sheet and improve cash flow management.

Assuming that the Exchange Offer and Consent Solicitation is consummated, and depending on market conditions, we may exercise our redemption rights under the indenture governing the Existing Notes. If the Concurrent New Money Issuance is consummated, we will use the net cash proceeds from the Concurrent New Money Issuance to refinance, among others, the Existing Notes and existing medium to long term offshore debts which will become due within one year.

TERMS OF THE EXCHANGE OFFER AND CONSENT SOLICITATION

Upon the terms and subject to the conditions set forth in this exchange offer and consent solicitation memorandum, we are offering to exchange at least a Minimum Acceptance Amount of our outstanding Existing Notes (due February 27, 2022 with ISIN:XS1932655613, Common Code: 193265561) held by Eligible Holders and soliciting Consents from Eligible Holders to certain proposed amendments to the Existing Notes Indenture, and to the execution by the Company, the Subsidiary Guarantors and the Existing Notes Trustee of an amendment to the Existing Notes Indenture giving effect to the Proposed Amendments, for the Exchange and Consent Consideration as set forth below.

As of the date of this exchange offer and consent solicitation memorandum, US\$455,000,000 of the Existing Notes are outstanding.

Eligible Holders of the Existing Notes validly accepted and exchanged in the Exchange Offer and Consent Solicitation will, from and including the Settlement Date, waive any and all rights with respect to the Existing Notes (other than the right to receive the relevant components of the applicable Exchange and Consent Consideration) and will release and discharge us from any and all claims such holder may have, now or in the future, arising out of or related to such Existing Notes, including any and all accrued and unpaid interest thereon.

Existing Notes accepted pursuant to the Exchange Offer and Consent Solicitation will be exchanged on the Settlement Date and will subsequently be cancelled.

By validly tendering any portion of their Existing Notes in the Exchange Offer, Eligible Holders will be deemed to have given Consents in the Consent Solicitation in respect of such portions of their holding of the Existing Notes. Eligible Holders may not participate in the Exchange Offer without consenting to the Proposed Amendments to the Existing Notes Indenture. All Consents delivered and accepted will be deemed to be Consents to the Proposed Amendments as a whole.

Any Existing Notes held by us or any of our Affiliates (as defined under the Existing Notes Indenture) shall be disregarded and deemed not to be outstanding for purposes of determining whether the Holders of the requisite amount of outstanding Existing Notes have consented to the Proposed Amendments. As of the date hereof, none of our Affiliates, to our knowledge, held any Existing Notes other than certain holdings by our directors and their associates in an aggregate principal amount of US\$5,000,000.

The Proposed Amendments constitute a single proposal and a tendering and consenting holder must consent to the adoption of the Proposed Amendments in their entirety and may not consent selectively with respect to certain Proposed Amendments. Accordingly, a tender purporting to consent only to some of the Proposed Amendments will not be valid and such holder will be deemed not to have delivered its tender and Consent and not to have tendered the relevant Existing Notes, and will not be entitled to receive the relevant Exchange Offer Consideration.

Each Eligible Holder will be deemed to have provided its Consent under the Consent Solicitation upon its tender of the Existing Notes. In addition, each Eligible Holder will have an option to participate in the Consent Solicitation with respect to their holdings of the Existing Notes by delivering a Consent-only instruction, regardless of whether it is participating in the Exchange Offer. The Proposed Amendments will be binding on all holders of Existing Notes upon our receipt of Consent with respect to not less than 50% in aggregate principal amount of the Existing Notes outstanding (the “**Requisite Consents**”). The Proposed Amendments will be approved at the time when we have received the Requisite Consents.

The Proposed Amendments will become effective upon execution of the Supplemental Indenture to the Existing Notes Indenture and will become operative concurrently with the consummation of the Exchange Offer. If the Proposed Amendments are accepted and effected, Existing Notes that are not tendered and accepted pursuant to the Exchange Offer will be subject to the Proposed Amendments. See “Risk Factors — Risks Relating to the Exchange Offer and Consent Solicitation Generally — The proposed elimination of, or amendments to, provisions in the Existing Notes Indenture will reduce the protection afforded to remaining holders of Existing Notes and could materially and adversely affect the credit risk inherent in the Existing Notes.” We cannot assure you that the Exchange Offer will be consummated on the terms described in this exchange offer and consent solicitation memorandum or at all.

Upon receipt of the Requisite Consents, we intend to instruct the Information, Tabulation and Exchange Agent to deliver written confirmation of the Requisite Consents to the Existing Notes Trustee as soon as practicable after the Exchange and Consent Expiration Deadline. We will not be obligated to accept validly tendered Existing Notes for exchange pursuant to the Exchange Offer and Consent Solicitation, unless and until, among other things, the Requisite Consents shall have been received and the other conditions set forth herein shall have been satisfied or waived.

As soon as practicable following the receipt of the Requisite Consents, we intend to execute the Supplemental Indenture with the Existing Notes Trustee providing for the Proposed Amendments as described in the section entitled “Proposed Amendments” in this exchange offer and consent solicitation memorandum. Pursuant to the terms of the Supplemental Indenture, which are set out in “Appendix B — Form of Supplemental Indenture” to this exchange offer and consent solicitation memorandum, which will be effective upon execution, the provisions to be eliminated or modified by the Proposed Amendments will remain unchanged until the Existing Notes that were validly tendered are accepted for exchange pursuant to the terms of the Exchange Offer and Consent Solicitation, and will become operative concurrently with the consummation of the Exchange Offer.

EXCHANGE AND CONSENT CONSIDERATION

Eligible Holders of the outstanding Existing Notes that are validly tendered prior to the Exchange and Consent Expiration Deadline and accepted for exchange will receive for each US\$1,000 principal amount of the Existing Notes the Exchange and Consent Consideration consisting of: (a) US\$1,077.041 in aggregate principal amount of the New Notes and (b) cash in lieu of any fractional amount of the New Notes not issued (rounded to the nearest US\$0.01, with US\$0.005 rounded upwards). We plan to use our own internal funds to pay the cash components of the Exchange and Consent Consideration described above. For the avoidance of doubts, once accepted by the Company for exchange, no cash payment (including accrued but unpaid interest from August 27, 2020 to the Settlement Date) in respect of the Existing Notes will be paid to the Eligible Holders who tender such Existing Notes for exchange.

The Existing Notes bear interest at the rate of 13.5% per annum.

The interest rate of the New Notes is 14.25%. We expect to announce other pricing terms of the New Notes in addition to those set forth in this exchange offer and consent solicitation memorandum as soon as practicable after the Exchange and Consent Expiration Deadline.

Notwithstanding anything to the contrary contained in this exchange offer and consent solicitation memorandum or in any other document related to the Exchange Offer and Consent Solicitation, we expressly reserve the right, at our sole discretion and regardless of whether any of the conditions described under “Description of the Exchange Offer and Consent Solicitation — Conditions to the Exchange Offer and Consent Solicitation” have been satisfied, subject to applicable law, at any time to (i) terminate the Exchange Offer and Consent Solicitation, in whole or in part, (ii) waive any of the conditions described herein, in whole or in part, other than the Minimum Acceptance Amount, (iii) extend the Exchange and Consent Expiration Deadline, (iv) amend the terms of the Exchange Offer and Consent Solicitation or modify the form or amount of the consideration to be paid pursuant to this Exchange Offer and Consent Solicitation. If we receive valid tender of the Existing Notes for less than the Minimum Acceptance Amount, we will not proceed with the Exchange Offer and Consent Solicitation and the Exchange Offer and Consent Solicitation shall lapse automatically.

If all or any of the Existing Notes tendered for exchange by any holder has not been accepted, you will receive (i) the Exchange and Consent Consideration in relation to the amount of the Existing Notes validly tendered and accepted in the Exchange Offer and Consent Solicitation; and (ii) in relation to those Existing Notes not accepted in the Exchange Offer and Consent Solicitation but validly tendered, such Existing Notes will be returned to such holder.

No other holders of the Existing Notes will be entitled to receive the Exchange and Consent Consideration.

INTEREST RATE AND TENURE OF THE NEW NOTES

The New Notes will bear interest from Settlement Date at the rate of 14.25% per annum, payable semi-annually in arrears, and will mature on the third anniversary of the Settlement Date. Holders of the New Notes have the right, at their option, to require us to repurchase for cash all of their New Notes, or any portion of the principal thereof that is equal to US\$200,000 or integral multiples of US\$1,000 in excess thereof, on the date that is fifteen months after the Settlement Date at the repurchase price equal to 100% of the principal amount of the New Notes to be repurchased, plus accrued and unpaid interest to, but excluding, such repurchase date.

We expect to announce the pricing terms of the Concurrent New Money Issuance as soon as practicable following any such pricing or, if we decide not to proceed with the Concurrent New Money Issuance (or any portion thereof), we will announce such decision as soon as practicable following such decision being made. Pricing of the Concurrent New Money Issuance is expected to occur on January 18, 2021, or as soon as practicable after the Exchange and Consent Expiration Deadline. However, there can be no assurance that the Concurrent New Money Issuance will price at all.

If the Concurrent New Money Issuance is not consummated with respect to any or all of the New Notes, the relevant pricing terms of the New Notes in addition to those set forth in this exchange offer and consent solicitation memorandum will be announced as soon as practicable following the confirmation that the Concurrent New Money Issuance with respect to such New Notes will not be consummated. Interest on the New Notes will be payable semi-annually in arrears.

ELIGIBILITY FOR ACCEPTANCE OF THE EXCHANGE OFFER AND CONSENT SOLICITATION

By submitting an electronic Instruction to Euroclear or Clearstream, as applicable, with respect to any Existing Notes, you are deemed to certify that you are an Eligible Holder.

EXCHANGE AND CONSENT EXPIRATION DEADLINE; EXTENSIONS; AMENDMENTS; TERMINATION

For purposes of the Exchange Offer and Consent Solicitation, the Exchange and Consent Expiration Deadline will be 4:00 p.m., London time, on January 18, 2021, subject to our right to extend or earlier terminate that time and date at our absolute discretion, in which case the Exchange and Consent Expiration Deadline means the latest time and date to which such time and date is extended or earlier terminated.

We reserve the right, at our absolute discretion, by giving oral or written notice to the Dealer Manager and the Information, Tabulation and Exchange Agent to:

- extend the Exchange Offer and Consent Solicitation;
- terminate the Exchange Offer and Consent Solicitation if a condition to our obligation to exchange Existing Notes for New Notes is not satisfied or waived prior to the Settlement Date, or if we determine that accepting the exchanges, paying the Exchange and Consent Consideration and effecting the transactions contemplated are not in our best interests; and
- amend or modify the Exchange Offer and Consent Solicitation, or waive any condition to the Exchange Offer and Consent Solicitation provided that, the Minimum Acceptance Amount cannot be amended or waived.

If we make a material change in the terms of the Exchange Offer and Consent Solicitation or the information concerning the Exchange Offer and Consent Solicitation, or waive a material condition of the Exchange Offer and Consent Solicitation, we will promptly disseminate disclosure regarding the changes to the Exchange Offer and Consent Solicitation and extend the Exchange Offer and Consent Solicitation, if required by law.

During any extension of the Exchange Offer and Consent Solicitation, Existing Notes that were previously tendered for exchange will remain subject to the Exchange Offer and Consent Solicitation. Any waiver, amendment or modification of the Exchange Offer and Consent Solicitation, including any change in the Exchange and Consent Consideration will apply to all Existing Notes previously validly tendered for such extension or the business days following such earlier termination.

We will promptly announce any extension, amendment or termination of the Exchange Offer and Consent Solicitation by issuing an announcement via the website of the Hong Kong Stock Exchange, the Exchange and Consent Website and through Euroclear and Clearstream. We will announce any extension or earlier termination of the Exchange and Consent Expiration Deadline no later than 9:00 a.m., Hong Kong time, on the business day after the previously scheduled Exchange and Consent Expiration Deadline.

ACCEPTANCE OF THE EXISTING NOTES

Subject to the terms and conditions of the Exchange Offer and Consent Solicitation, and assuming we do not otherwise terminate the Exchange Offer and Consent Solicitation, we will be deemed to accept validly tendered Existing Notes when, and if, we give oral or written notice of acceptance to the Dealer Manager and the Information, Tabulation and Exchange Agent. If any tendered Existing Notes are not accepted for any reason described in the terms and conditions of the Exchange Offer and Consent Solicitation, such unaccepted Existing Notes will be returned to the tendering holder at our expense promptly after the expiration or termination of the Exchange Offer and Consent Solicitation. Any unaccepted Existing Notes will be credited back to the tendering holder's account at the relevant Clearing System. Under no circumstances will we be required to accept Existing Notes for exchange that have not been validly tendered prior to the Exchange and Consent Expiration Deadline in accordance with the procedures set forth in this exchange offer and consent solicitation memorandum. We reserve the absolute right to reject any and all tenders of the Existing Notes not in proper form or any Existing Notes the acceptance for exchange of which may, in the opinion of counsel, be unlawful. We also reserve the absolute right to accept, on a case-by-case basis, any Existing Notes tendered after the Exchange and Consent Expiration Deadline. See “— Procedures for Tendering Existing Notes and Delivering Consents.”

SETTLEMENT DATE; DELIVERY OF CONSIDERATION

The Settlement Date will occur promptly after the Exchange and Consent Expiration Deadline. We anticipate that the Settlement Date will occur on or about January 25, 2021, unless the Exchange Offer and Consent Solicitation is extended.

Subject to the terms and conditions of the Exchange Offer and Consent Solicitation, and assuming that the Exchange Offer and Consent Solicitation is not otherwise terminated by us, on the Settlement Date, Eligible Holders of Existing Notes who validly tendered in accordance with the procedures set forth in this exchange offer and consent solicitation memorandum prior to the Exchange and Consent Expiration Deadline that are accepted by us will receive the Exchange and Consent Consideration.

Any cash payments for the Exchange and Consent Consideration on the Existing Notes accepted for exchange will be made by deposit of funds with Euroclear or Clearstream. Euroclear or Clearstream will transmit the New Notes and cash payments to Eligible Holders whose Existing Notes are accepted for exchange in accordance with the terms of the Exchange Offer and Consent Solicitation.

CONDITIONS TO THE EXCHANGE OFFER AND CONSENT SOLICITATION

Notwithstanding anything to the contrary contained in this exchange offer and consent solicitation memorandum or in any other document related to the Exchange Offer and Consent Solicitation, we expressly reserve the right, at our sole discretion and regardless of whether any of the conditions described under this section have been satisfied, subject to applicable law, at any time to (i) terminate the Exchange Offer and Consent Solicitation, in whole or in part, (ii) waive any of the conditions described herein, in whole or in part, other than Minimum Acceptance Amount, (iii) extend the Exchange and Consent Expiration Deadline, (iv) amend the terms of the Exchange Offer and the Consent Solicitation or (v) modify the form or amount of the consideration to be paid pursuant to the Exchange Offer and Consent Solicitation.

Combined General Conditions

Notwithstanding any other provisions of the Exchange Offer and Consent Solicitation, or any extension of the Exchange Offer and Consent Solicitation, we will not be required to deliver any consideration (and we may terminate the Exchange Offer and Consent Solicitation or, at our option, modify, extend or otherwise amend the Exchange Offer and Consent Solicitation), unless each of the following conditions, which we refer to as the combined general conditions, is satisfied or waived:

- (1) not less than the Minimum Acceptance Amount of the Existing Notes, not including any Existing Notes subject to repurchase, shall have been validly tendered (for which Consents will be deemed to have been validly delivered) prior to the Expiration Deadline;
- (2) receipt of Requisite Consents of outstanding Existing Notes not owned by the Company or any of its affiliates;
- (3) the Supplemental Indenture having been executed;
- (4) we have made an affirmative determination that accepting the exchanges, paying the Exchange and Consent Consideration and effecting the transactions contemplated hereby are in our best interests;
- (5) no action or event shall have occurred or to our knowledge, been threatened (including a default under an agreement, indenture or other instrument or obligation to which we or one of our subsidiaries is a party or by which we or one of our subsidiaries is bound), nor shall any action, proceeding, application, claim, counterclaim or investigation (whether formal or informal) be pending or have been taken, nor shall any statute, rule, regulation, judgment, order, stay, decree or injunction have been proposed, promulgated, enacted, entered, enforced or deemed to be applicable to the Exchange Offer and Consent Solicitation or the exchange of the Existing Notes under the Exchange Offer and Consent Solicitation by or before any court or governmental, regulatory or administrative agency or instrumentality, domestic or foreign, authority or tribunal, or by any other person, domestic or foreign, that either:

- (i) challenges the Exchange Offer and Consent Solicitation or the exchange of the Existing Notes under the Exchange Offer and Consent Solicitation or might, directly or indirectly, prohibit, prevent, restrict or delay consummation of, or might otherwise adversely affect in any material manner, the Exchange Offer and Consent Solicitation or the exchange of the Existing Notes under the Exchange Offer and Consent Solicitation; or
 - (ii) in our reasonable judgment, could materially affect our business, condition (financial or otherwise), income, operations, properties, assets, liabilities or prospects, or materially impair the contemplated benefits to us of the Exchange Offer and Consent Solicitation or the exchange of the Existing Notes under the Exchange Offer and Consent Solicitation or might be material to holders of the Existing Notes in deciding whether to accept the Exchange Offer and Consent Solicitation;
- (6) there shall not have occurred or be likely to occur any event affecting the business, operations, properties, condition (financial or otherwise), assets, liabilities or prospects of us or our subsidiaries that, in our sole judgment, either (i) is, or is reasonably likely to be, materially adverse to our business, operations, properties, condition (financial or otherwise), assets, liabilities or prospects, or (ii) would or might prohibit, prevent, restrict or delay consummation of the Exchange Offer and Consent Solicitation;
- (7) none of the following has occurred:
- (i) any general suspension of or limitation on trading in securities on the PRC, the United States, London, Hong Kong securities or financial markets, or in the over-the-counter market (whether or not mandatory);
 - (ii) any material decrease in the trading price of the Existing Notes in the PRC, the United States, London, Hong Kong or other major securities or financial markets;
 - (iii) a material impairment in the general trading market for debt securities;
 - (iv) a declaration of a banking moratorium or any suspension of payments in respect of banks by federal or state authorities in the PRC, the United States, London or Hong Kong or other major financial markets (whether or not mandatory);
 - (v) a commencement or escalation of a war, armed hostilities, terrorist act or other national or international crisis directly or indirectly relating to the PRC, the United States, London or Hong Kong;
 - (vi) any limitation (whether or not mandatory) by any governmental, administrative or regulatory authority or agency, domestic or foreign, or other event having a reasonable likelihood, in our reasonable judgment, of affecting, the extension of credit by banks or other lending institutions in the PRC, the United States, London or Hong Kong;
 - (vii) any material disruption has occurred in securities settlement or clearance services in the PRC, the United States, London or Hong Kong;
 - (viii) any amalgamation, merger, acquisition or other business combination proposal involving us or our subsidiaries shall have been proposed, announced or made by any person or entity;
 - (ix) any material adverse change in the PRC, the United States, London or Hong Kong securities or financial markets generally; and
 - (x) in the case of any of the foregoing existing at the time of the commencement of the Exchange Offer and Consent Solicitation, a material acceleration or worsening thereof; and

- (8) the Existing Notes Trustee shall not have objected in any respect to, nor have taken any action that could in our reasonable judgment adversely affect the consummation of, the Exchange Offer and Consent Solicitation or the exchange of the Existing Notes under the Exchange Offer and Consent Solicitation nor shall the Existing Notes Trustee have taken any action that challenges the validity or effectiveness of the procedures used by us in making the Exchange Offer and Consent Solicitation or the exchange of the Existing Notes under the Exchange Offer and Consent Solicitation.

Waiver, Termination and Modification

The foregoing conditions are for our sole benefit, and other than condition in relation to the Minimum Acceptance Amount, may be waived by us, in whole or in part, at our absolute discretion. Any determination made by us concerning an event, development or circumstance described or referred to above will be conclusive and binding. Our failure at any time to exercise any of our rights will not be deemed a waiver of any other right, and each right will be deemed an ongoing right which may be asserted at any time and from time to time.

If any of the combined general conditions is not satisfied, we may, at any time prior to the Settlement Date, subject to applicable law:

- terminate the Exchange Offer and Consent Solicitation and return all tendered Existing Notes;
- modify, extend or otherwise amend the Exchange Offer and Consent Solicitation and retain all tendered Existing Notes until the Exchange and Consent Expiration Deadline may be extended; or
- waive any unsatisfied conditions with respect to the Exchange Offer and Consent Solicitation, and accept all Existing Notes tendered and delivered, provided that we will not waive Condition (1) with respect to the Minimum Acceptance Amount. If we receive valid tender of the Existing Notes for less than the Minimum Acceptance Amount, we will not proceed with the Exchange Offer and Consent Solicitation and the Exchange Offer and Consent Solicitation shall lapse automatically.

REPRESENTATIONS, WARRANTIES AND COVENANTS OF HOLDERS OF THE EXISTING NOTES

Representations, warranties and covenants of each Eligible Holder of the Existing Notes

Upon Instruction to tender the Existing Notes, which will be irrevocable, and subject to the terms and conditions of the Exchange Offer and Consent Solicitation generally, each Eligible Holder will be deemed, among other things, to:

- (1) irrevocably sell, assign and transfer to or upon our order or the order of our nominee, all right, title and interest in and to, and any and all claims in respect of or arising or having arisen as a result of such holder's status as a holder of, all Existing Notes tendered thereby, such that thereafter it shall have no contractual or other rights or claims in law or in equity against the Company, the Existing Notes Trustee or any fiduciary, trustee, fiscal agent, security agent or other person connected with the Existing Notes arising under, from or in connection with such Existing Notes;
- (2) waive any and all rights with respect to the Existing Notes tendered thereby (including, without limitation, any existing or past defaults and their consequences in respect of such Existing Notes); and
- (3) release and discharge us, each Subsidiary Guarantor, each JV Subsidiary Guarantors (if any), the Existing Notes Trustee or any fiduciary, trustee, fiscal agent, security agent or other person connected with the Existing Notes from any and all claims such holder may have (now or in the future), arising out of or relating to the Existing Notes tendered thereby, including, without limitation, any claims that such holder is entitled to receive additional principal or interest payments with respect to the Existing Notes tendered thereby (other than as expressly provided in this exchange offer and consent solicitation memorandum) or to participate in any redemption or defeasance of the Existing Notes tendered thereby.

In addition, such Eligible Holder of the Existing Notes will be deemed to represent, warrant and undertake that:

- (1) it has received and reviewed this exchange offer and consent solicitation memorandum including the terms of the New Notes set out herein;
- (2) it is the beneficial owner (as defined below) of, or a duly authorized representative of one or more such beneficial owners of, the Existing Notes tendered thereby, and has the full power and authority to tender its Existing Notes and give its Consent;
- (3) it (i) has not received or been sent copies of this exchange offer and consent solicitation memorandum or any related documents in, into or from the United States, (ii) is not a “U.S. person” and is not located in the United States, (iii) is not an agent, fiduciary or other intermediary acting on a nondiscretionary basis for a principal who has given Instructions with respect of the Exchange Offer and Consent Solicitation from within the United States or from a U.S. person, (iv) has not otherwise utilized in connection with the Exchange Offer and Consent Solicitation, directly or indirectly, the mails, or any means or instrumentality (including, without limitation, facsimile transmission, telex, telephone, email and other forms of electronic transmission) of interstate or foreign commerce, or of any facilities of a national securities exchange, of the United States and (v) is offering to exchange the Existing Notes from outside the United States;
- (4) it acknowledges that the Exchange Offer and Consent Solicitation is subject to the restrictions set out in the section entitled “Offer and Distribution Restrictions”;
- (5) it acknowledges that the New Notes to be exchanged for the Existing Notes tendered for exchange hereby have not been registered under the Securities Act and may only be sold or otherwise transferred subject to the restrictions set out in the section entitled “Transfer Restrictions” in “Appendix A — Preliminary Offering Memorandum for the New Notes.”;
- (6) the Existing Notes being tendered thereby were owned as of the date of tender, free and clear of any liens, charges, claims, encumbrances, interests and restrictions of any kind, and we will acquire good, indefeasible and unencumbered title to such Existing Notes, free and clear of all liens, charges, claims, encumbrances, interests and restrictions of any kind, when we accept the same;
- (7) it will not sell, pledge, hypothecate or otherwise encumber or transfer any Existing Notes tendered thereby and agrees that any purported sale, pledge, hypothecation or other encumbrance or transfer will be void and of no effect;
- (8) in evaluating the Exchange Offer and Consent Solicitation and in making its decision whether to participate therein by tendering its Existing Notes, such holder has made its own independent evaluation of the matters referred to herein and in any related communications and is not relying on any statement, representation or warranty, express or implied, made to such holder by the Dealer Manager, the Information, Tabulation and Exchange Agent, the Existing Notes Trustee or the New Notes Trustee;
- (9) the delivery of an electronic instruction to the relevant Clearing System shall constitute an undertaking to execute any further documents and give any further assurances that may be required in connection with the Exchange Offer and Consent Solicitation, in each case on and subject to the terms and conditions set out or referred to in this exchange offer and consent solicitation memorandum;

- (10) the delivery of an electronic instruction to the relevant Clearing System shall constitute (subject to the terms and conditions of the Exchange Offer and Consent Solicitation generally) the appointment of the Information, Tabulation and Exchange Agent as its attorney and agent, and an instruction to such attorney and agent (such appointment and instruction to be irrevocable) to complete and execute all or any form(s) of transfer and other document(s) at the discretion of such attorney and agent in relation to the Existing Notes tendered thereby in favor of the Company or such other person or persons as the Company may direct, and to deliver such form(s) of transfer and other document(s) in the attorney's and agent's discretion and/or the certificate(s) and other documents of title relating to such Existing Notes' registration and to execute all such other documents and to do all such other acts and things as may be in the opinion of such attorney or agent necessary or expedient for the purpose of, or in connection with, the acceptance of the Exchange Offer and Consent Solicitation, and to vest in the Company or their nominees such Existing Notes;
- (11) the terms and conditions of the Exchange Offer and Consent Solicitation shall be deemed to be incorporated in, and form a part of, the electronic instruction, which shall be read and construed accordingly;
- (12) by delivering an electronic instruction with respect to its Existing Notes through Euroclear or Clearstream, it consents to the disclosure by Euroclear or Clearstream of certain details concerning its identity, the aggregate principal amount of such Existing Notes and the account details to the Information, Tabulation and Exchange Agent;
- (13) it has not distributed or forwarded this exchange offer and consent solicitation memorandum, or any part thereof, or any other documents or materials relating to the Exchange Offer and Consent Solicitation to any person, and it has complied with all laws and regulations applicable to it for the purpose of its participation in the Exchange Offer and Consent Solicitation; and
- (14) it has not provided a written repurchase notice to the Company to exercise the Put Option in connection with its Existing Notes or, if it has already done so, it will validly withdraw its written repurchase notice on or prior to the Exchange and Consent Expiration Deadline.

The representations and warranties and agreements of a holder tendering Existing Notes shall be deemed to be repeated and reconfirmed on and as of the Exchange and Consent Expiration Deadline and the Settlement Date. For the purposes of this exchange offer and consent solicitation memorandum, the "beneficial owner" of any Existing Notes shall mean any holder that exercises sole investment discretion with respect to such Existing Notes.

PROCEDURES FOR TENDERING EXISTING NOTES AND DELIVERING CONSENTS

General

To participate in the exchange offer, an Eligible Holder must validly tender its Existing Notes for exchange pursuant to the Exchange Offer and Consent Solicitation prior to the Exchange and Consent Expiration Deadline pursuant to the procedures described below. In addition, Eligible Holders who wish to participate in the Consent Solicitation with respect to their holdings of the Existing Notes (regardless of whether they are participating in the Exchange Offer) by submitting a Consent-only instruction must each validly deliver such instruction to Euroclear or Clearstream prior to the Exchange and Consent Expiration Deadline and before the deadlines set by Euroclear and Clearstream, as the case may be. For the avoidance of doubts, no consent fee will be provided to the Eligible Holders who deliver Consent-only instruction without participating in the Exchange Offer.

To meet the deadlines referred to in this exchange offer and consent solicitation memorandum, custodians, nominees and the relevant Clearing System may require you to act on a date prior to the Exchange and Consent Expiration Deadline. Additionally, they may require further information in order to process all requests to tender. Eligible Holders are urged to contact their custodians or the relevant Clearing System as soon as possible to ensure compliance with their procedures and deadlines.

The method of delivery of the Existing Notes and all other required documents to the Information, Tabulation and Exchange Agent is at the election and risk of the holder. The Eligible Holder of the Existing Notes should allow sufficient time to assure delivery to and receipt by the Information, Tabulation and Exchange Agent prior to the Exchange and Consent Expiration Deadline.

Questions about the terms of the Exchange Offer and Consent Solicitation should be directed to the Dealer Manager. If you have questions regarding tender procedures or require additional copies of this exchange offer and consent solicitation memorandum, please contact the Dealer Manager or the Information, Tabulation and Exchange Agent. Contact information for the Dealer Manager and the Information, Tabulation and Exchange Agent are set forth on the back cover of this exchange offer and consent solicitation memorandum. Beneficial owners may also contact their brokers, dealers, commercial banks, trust companies or other nominee or custodian for assistance concerning the Exchange Offer and Consent Solicitation.

Existing Notes Put Option

Pursuant to the Existing Notes Indenture, all holders of the Existing Notes (including the Eligible Holders) have the right, at their option, to require the Company to repurchase for cash all of their Existing Notes, or any portion of the principal thereof that is equal to US\$200,000 or integral multiples of US\$1,000 in excess thereof on February 27, 2021. Holders who decide, at their option, to request the Company to repurchase their Existing Notes on the Put Option Date must deliver a written repurchase notice to the Paying Agent during the period beginning at the open of business on December 29, 2020 (London time) and ending at the close of business on January 27, 2021 (London time) and must specify in its written notice the principal amount of the Existing Notes that such holder request for repurchase by the Company pursuant to the Put Option. The repurchase price of the Notes to be paid by the Company on the Put Option Date to each holder who exercise their Put Option will be 100% of the principal amount of the Existing Notes requested by such holder for repurchase plus the accrued and unpaid interest to, but excluding, the Put Option Date.

Holders may withdraw any repurchase notice (in whole or in part) by a written notice of withdrawal delivered to the Paying Agent through electronic instruction in accordance with the procedures established by Euroclear and Clearstream prior to the close of business on January 22, 2021 (London time).

Participation in the Exchange Offer and Consent Solicitation and exercise of the Put Option are mutually exclusive. In order to validly tender Existing Notes and participate in the Exchange Offer and Consent Solicitation, an Eligible Holder must refrain from providing a written repurchase notice to the Company in connection with its Existing Notes or, if it has already done so, validly withdraw its written repurchase notice. Failure to do so will result in non-participation in the Exchange Offer and Consent Solicitation by such Eligible Holder in respect of the amount of Existing Notes for which a written repurchase notice has been delivered and not withdrawn.

Valid Tender of the Existing Notes

If you are an Eligible Holder of Existing Notes and you wish to tender your Existing Notes for exchange pursuant to the Exchange Offer and Consent Solicitation, you may accept the Exchange Offer and Consent Solicitation prior to the Exchange and Consent Expiration Deadline by submitting a valid electronic instruction to the relevant Clearing System in accordance with the requirements of the relevant Clearing System. By submitting an electronic instruction in accordance with the requirements of the

relevant Clearing System, you shall be deemed to represent, warrant and undertake the following to the Company, the Dealer Manager, the Information, Tabulation and Exchange Agent, the Existing Notes Trustee and the New Notes Trustee on each of the Exchange and Consent Expiration Deadline and the Settlement Date:

- that you wish to receive the New Notes under the terms of the Exchange Offer and Consent Solicitation;
- that you are a person located outside the United States and not a U.S. person (within the meaning of Regulation S under the Securities Act);
- the accuracy of your name and securities account number at the relevant Clearing System in which you hold the Existing Notes and to which the New Notes are to be credited;
- you have authorized the relevant Clearing System to block your position in the Existing Notes until the Settlement Date or termination or withdrawal of the Exchange Offer and Consent Solicitation;
- the accuracy of the cash account number at the relevant Clearing System to which the cash portion of the Exchange and Consent Consideration should be credited; and
- that you consent to the disclosure by Euroclear or Clearstream of certain details concerning your identity, the aggregate principal amount of such Existing Notes and the account details to the Information, Tabulation and Exchange Agent.

Your acceptance of the Exchange Offer and Consent Solicitation will constitute a binding agreement between you and us in accordance with the terms, and subject to the conditions, set forth herein and in the electronic instruction. Such acceptance will be binding upon receipt by the relevant Clearing System of a valid electronic instruction in respect of all matters except your tender of the Existing Notes for exchange, which will be binding immediately.

By submitting a valid electronic instruction to the relevant Clearing System, you are deemed to represent, warrant and undertake to the Company, the Subsidiary Guarantors, the JV Subsidiary Guarantors (if any), the Dealer Manager, the Information, Tabulation and Exchange Agent, the Existing Notes Trustee and the New Notes Trustee that:

- you have received, reviewed and accepted the terms of this exchange offer and consent solicitation memorandum, the terms of the New Notes and the “Transfer Restrictions” in “Appendix A — Preliminary Offering Memorandum for the New Notes.”;
- you currently hold the Existing Notes at the time of submission of an electronic instruction, and will continue to hold the Existing Notes, until the time of settlement on the Settlement Date or the termination of the Exchange Offer and Consent Solicitation;
- you have blocked the Existing Notes (and they will remain blocked) in the securities account to which such Existing Notes are credited in the relevant Clearing System with effect from, and including, the date on which the relevant Clearing System receives the electronic instruction until the time of settlement on the Settlement Date or termination of the Exchange Offer and Consent Solicitation, all in accordance with the normal procedures of the relevant Clearing System and after taking into account the deadlines imposed by the relevant Clearing System;

- you will transfer the Existing Notes which are the subject of the electronic instruction, on the Settlement Date, with full title, free and clear of any liens, charges, claims, encumbrances, interests and restrictions of any kind, and we will acquire good, indefeasible and unencumbered title to such Existing Notes, free and clear of all liens charges, claims, encumbrances, interests and restrictions of any kind, when we accept the same; and
- (i) you are the beneficial owner of, or are a duly authorized representative of one or more such beneficial owners of, the Existing Notes and you are not a U.S. person and are not located in the United States of America at the time you submitted the electronic instruction and (ii) if you are acting in a fiduciary, agency or other capacity as an intermediary, then either (x) you have full investment discretion with respect to the Existing Notes covered by the electronic instruction or (y) the person on whose behalf you are acting is a non-U.S. person located outside the United States of America at the time he or she instructed you to accept the Exchange Offer and Consent Solicitation.

If you are unable to give any of the representations and warranties described above, please contact the Dealer Manager. Do not send Existing Notes or electronic instructions to the Dealer Manager, the Company or the Information, Tabulation and Exchange Agent.

Investor Profile Election

For the Hong Kong Stock Exchange’s policy review purpose, an Eligible Holder is required to certify its Investor Profile when submitting its Instruction. References to “Investor Profile” are to categories of professional investors as determined pursuant to the Securities and Futures Ordinance (Cap. 571) of Hong Kong, which include:

1. Institutional Professional Investors;
2. Corporate Professional Investors;
3. Individual Professional investors; and
4. Private Banking Clients (if not included in category 2 or 3 above);

“**Institutional Professional Investors**” refers to persons who fall under paragraphs (a) to (i) of the definition of “professional investor” under Part 1 of Schedule 1 to the Securities and Futures Ordinance, which includes:

- (a) any recognized exchange company, recognized clearing house, recognized exchange controller or recognized investor compensation company, or any person authorized to provide automated trading services under section 95(2) of the Securities and Futures Ordinance;
- (b) any intermediary, or any other person carrying on the business of the provision of investment services and regulated under the law of any place outside Hong Kong;
- (c) any authorized financial institution, or any bank which is not an authorized financial institution but is regulated under the law of any place outside Hong Kong;
- (d) any insurer authorized under the Insurance Ordinance (Cap. 41), or any other person carrying on insurance business and regulated under the law of any place outside Hong Kong;
- (e) any scheme which—
 - i. is a collective investment scheme authorized under section 104 of the Securities and Futures Ordinance; or

- ii. is similarly constituted under the law of any place outside Hong Kong and, if it is regulated under the law of such place, is permitted to be operated under the law of such place,

or any person by whom any such scheme is operated;

- (f) any registered scheme as defined in section 2(1) of the Mandatory Provident Fund Schemes Ordinance (Cap. 485), or its constituent fund as defined in section 2 of the Mandatory Provident Fund Schemes (General) Regulation (Cap. 485 sub. leg. A), or any person who, in relation to any such registered scheme, is an approved trustee or service provider as defined in section 2(1) of that Ordinance or who is an investment manager of any such registered scheme or constituent fund;

- (g) any scheme which—

- i. is a registered scheme as defined in section 2(1) of the Occupational Retirement Schemes Ordinance (Cap. 426); or

- ii. is an offshore scheme as defined in section 2(1) of that Ordinance and, if it is regulated under the law of the place in which it is domiciled, is permitted to be operated under the law of such place,

or any person who, in relation to any such scheme, is an administrator as defined in section 2(1) of that Ordinance;

- (h) any government (other than a municipal government authority), any institution which performs the functions of a central bank, or any multilateral agency;

- (i) except for the purposes of Schedule 5 to the Securities and Futures Ordinance, any corporation which is—

- i. a wholly owned subsidiary of—

- (A) an intermediary, or any other person carrying on the business of the provision of investment services and regulated under the law of any place outside Hong Kong; or

- (B) an authorized financial institution, or any bank which is not an authorized financial institution but is regulated under the law of any place outside Hong Kong;

- ii. a holding company which holds all the issued share capital of—

- (A) an intermediary, or any other person carrying on the business of the provision of investment services and regulated under the law of any place outside Hong Kong; or

- (B) an authorized financial institution, or any bank which is not an authorized financial institution but is regulated under the law of any place outside Hong Kong; or

- iii. any other wholly owned subsidiary of a holding company referred to in previous subparagraph.

- (j) any person of a class which is prescribed by rules made under section 397 of the Securities and Futures Ordinance for the purposes of this paragraph as within the meaning of this definition for the purposes of the provisions of the Securities and Futures Ordinance, or to the extent that it is prescribed by rules so made as within the meaning of this definition for the purposes of any provision of the Securities and Futures Ordinance.

“**Corporate Professional Investors**” and “**Individual Professional Investors**” refer to persons that fall under paragraphs (j) of the definition of “professional investor” under Part 1 of Schedule 1 to the Securities and Futures Ordinance. According to Section 3 of the Securities and Futures (Professional Investor) Rules (Cap 571D), investors in this category include:

- (a) any trust corporation having been entrusted under the trust or trusts of which it acts as trustee with total assets of at least HK\$40 million or its equivalent in any foreign currency;
- (b) any individual (either alone or with his spouse or children on a joint account) having a portfolio (comprising securities, certificates of deposit issued by an authorized financial institution or the overseas equivalent, and/or money held by a custodian for him) of at least HK\$8 million or its equivalent in any foreign currency;
- (c) any corporation or partnership having either a portfolio (comprising securities, certificates of deposit issued by an authorized financial institution or the overseas equivalent, and/or money held by a custodian for him) of at least HK\$8 million or total assets of at least HK\$40 million or its equivalent in any foreign currency; and
- (d) any corporation whose sole business is to hold investments and which is wholly owned by an individual who (either alone or with his spouse or children on a joint account) falls within the description in paragraph (b) above.

Private banking clients should be categorized as either Corporate Professional Investors or Individual Professional Investors, where possible.

Valid Delivering of Consent-only Instruction

If you are an Eligible Holder who wishes to participate in the Consent Solicitation (regardless of whether you are participating in the Exchange Offer) by submitting a Consent-only instruction with respect to your holding of the Existing Notes, you must validly deliver such instruction to Euroclear or Clearstream prior to the Exchange and Consent Expiration Deadline and before the deadlines set by Euroclear and Clearstream, as the case may be.

Eligible Holders must indicate the aggregate amount of the Existing Notes to which the Consents relates.

Only direct participants in Euroclear or Clearstream may submit Consent-only instructions through Euroclear and Clearstream. If you are not a direct participant in Euroclear or Clearstream you must contact your broker, dealer, commercial bank, trust company or other nominee or custodian to arrange for their direct participant through which you hold the Existing Notes to submit Consent-only instructions on your behalf to the relevant clearing system prior to the deadline specified by the relevant clearing system. Participants in Euroclear or Clearstream must consent with respect to the Existing Notes in the principal amount of US\$200,000 and any multiple of US\$1,000 in excess thereof.

PROCEDURES FOR PARTICIPATING IN THE EXCHANGE OFFER AND CONSENT SOLICITATION

To tender Existing Notes pursuant to the Exchange Offer and Consent Solicitation, a beneficial owner should deliver, or arrange to have delivered on its behalf, via Euroclear or Clearstream, as applicable, and in accordance with the requirements of Euroclear or Clearstream, as applicable, a valid Instruction that is received by the Information, Tabulation and Exchange Agent by the Exchange and Consent Expiration Deadline. Instructions must be submitted in respect of no less than a minimum nominal amount of Existing Notes (being US\$200,000), and may thereafter be submitted in integral multiples of US\$1,000; provided that, if a holder shall elect to partially exchange its Existing Notes into New Notes, the principal amount of Existing Notes retained must be a minimum amount of US\$200,000.

Eligible Holders are responsible for ensuring that their Instructions will result in the New Notes they are entitled to receive being at least equal to the minimum principal amount of US\$200,000. Instructions that would result in a principal amount of New Notes below US\$200,000 will be rejected.

Beneficial owners are advised to check with any bank, securities broker or other intermediary through which they hold Existing Notes when such intermediary would need to receive instructions from a beneficial owner in order for that beneficial owner to be able to participate in the Exchange Offer and Consent Solicitation by the Exchange and Consent Expiration Deadline specified in this exchange offer and consent solicitation memorandum.

The deadlines set by any such intermediary and Euroclear or Clearstream, as applicable, for the submission of Instructions will be earlier than the Exchange and Consent Expiration Deadline specified in this exchange offer and consent solicitation memorandum.

TENDER INSTRUCTIONS

Only direct participants of Euroclear and Clearstream may submit Instructions to Euroclear and Clearstream. Each beneficial owner of Existing Notes that is not a direct participant must arrange for the direct participant through which such beneficial owner holds its Existing Notes to submit a valid Instruction on its behalf to Euroclear or Clearstream, as applicable, before the deadlines specified by Euroclear or Clearstream, as applicable.

Euroclear and Clearstream Participants

A beneficial owner wishing to participate in the Exchange Offer and Consent Solicitation must submit, or arrange to have submitted on its behalf, at or before the Exchange and Consent Expiration Deadline and before the deadlines set by Euroclear or Clearstream, as applicable (unless the Exchange Offer and Consent Solicitation is terminated earlier), a duly completed electronic instruction to the Euroclear or Clearstream, as applicable.

The submission of Existing Notes for exchange will be deemed to have occurred upon receipt by Euroclear or Clearstream, as applicable, of a valid electronic instruction in accordance with the requirements of Euroclear or Clearstream, as applicable. The receipt of such electronic instruction by Euroclear or Clearstream, as applicable, will be acknowledged in accordance with the standard practices of Euroclear or Clearstream, as applicable, and will result in the blocking of such Existing Notes in Euroclear or Clearstream, as applicable, so that no transfers may be effected in relation to such Existing Notes.

By submitting an electronic instruction in respect of the Exchange Offer and Consent Solicitation, the relevant holder will be deemed to have confirmed (i) that such holder wishes to participate in the Exchange Offer and Consent Solicitation for the aggregate principal amount of the Existing Notes specified in the electronic instruction, (ii) the name of the holder or the relevant direct participant and the securities account number at Euroclear or Clearstream, as applicable, in which the Existing Notes are held, and (iii) that the New Notes and any cash payments are to be credited to the securities account and cash account numbers, respectively, at Euroclear or Clearstream, as applicable, in which the Existing Notes are held.

CONSENT-ONLY INSTRUCTIONS

To deliver a Consent-only instruction with respect to the Existing Notes, an Eligible Holder should either (i) contact Euroclear or Clearstream for participation procedures and deadlines; or (ii) request such Eligible Holder's broker, dealer, commercial bank, trust company or other nominee or custodian to effect the submission of an electronic instruction to authorize the delivery of consents for such Eligible Holder. Eligible Holders whose Existing Notes are held on their behalf by a broker, dealer, commercial bank, trust company or other nominee or custodian must contact such entity if they desire to consent to the Proposed Amendments.

Notwithstanding that the Consent-only instructions are delivered by each Eligible Holder by means of an electronic instruction, each Eligible Holder thereby agrees that such Instruction constitutes a written consent to the Proposed Amendments.

The receipt of such Instruction by Euroclear or Clearstream may be acknowledged in accordance with the standard practices of Euroclear or Clearstream. For the avoidance of doubt, any such acknowledgement does not constitute an acceptance of the consent by or on behalf of the Company. An Eligible Holder may consent by submitting a valid electronic instruction to the relevant Clearing System in accordance with the requirements of the relevant Clearing System.

The Consent by an Eligible Holder will, on acceptance of the consent by the Company, constitute a binding agreement between such Eligible Holder and the Company in accordance with the terms, and subject to the conditions set forth in, this exchange offer and consent solicitation memorandum and in a Consent-only instruction, as the case may be.

DETERMINATION OF VALIDITY

All questions as to the validity, form, eligibility (including time of receipt) and acceptance of any tendered Existing Notes pursuant to any of the procedures described above, and the form and validity of all documents will be determined by us at our sole discretion, which determination will be final and binding absent a finding to the contrary by a court of competent jurisdiction. We reserve the absolute right to reject any or all tenders of any Existing Notes determined by us not to be in proper form, or if the acceptance of or exchange of such Existing Notes may, in the opinion of our counsel, be unlawful or result in a breach of contract. We also reserve the absolute right to accept, on a case-by-case basis, any Existing Notes tendered after the Exchange and Consent Expiration Deadline. A waiver of any defect or irregularity with respect to the tender of one Existing Note shall not constitute a waiver of the same or any other defect or irregularity with respect to the tender of any other Existing Notes.

Your tender of the Existing Notes will not be deemed to have been validly made until all defects or irregularities in your tender and delivery have been cured or waived. None of us, the Dealer Manager, the Information, Tabulation and Exchange Agent or any other person or entity is under any duty to give notification of any defects or irregularities in any tender of any Existing Notes, or will incur any liability for failure to give any such notification.

NO PARTICIPATION BY THE COMPANY

The Company may not submit any electronic instructions.

NO GUARANTEED DELIVERY

There are no guaranteed delivery procedures provided by the Company or any other entity making payments on behalf of the Company in connection with the Exchange Offer and Consent Solicitation. Eligible Holders must tender their Existing Notes in accordance with the procedures set forth herein.

THE EXISTING NOTES TRUSTEE AND THE EXISTING NOTE AGENTS

In accordance with normal practice, the Existing Notes Trustee and the Existing Notes Agents expresses no opinion on the terms of the Exchange Offer and Consent Solicitation. The Existing Notes Trustee and the Existing Notes Agents have not been involved in formulating the terms of the Exchange Offer and Consent Solicitation, and makes no representation that all relevant information has been disclosed to holders of the Existing Notes herein or that the information contained herein is accurate or complete. Each holder of the Existing Notes is responsible for assessing the merits of the Exchange Offer and Consent Solicitation. Accordingly, the Existing Notes Trustee and the Existing Notes Agents recommend that the holders of the Existing Notes seek their own independent financial or legal advice with regard to the impact of the implementation of the Exchange Offer and Consent Solicitation.

INFORMATION, TABULATION AND EXCHANGE AGENT

D.F. King has been appointed as the Information, Tabulation and Exchange Agent for the Exchange Offer and Consent Solicitation. Questions concerning tender procedures and requests for additional copies of this exchange offer and consent solicitation memorandum should be directed to the Information, Tabulation and Exchange Agent via email and at the address and telephone numbers listed on the back cover of this exchange offer and consent solicitation memorandum. Holders of the Existing Notes may also contact their broker, dealer, commercial bank, trust company or other nominee or custodian for assistance concerning the Exchange Offer and Consent Solicitation. We will pay the Information, Tabulation and Exchange Agent reasonable and customary fees for its services and will reimburse it for its reasonable out-of-pocket expenses. We have agreed to indemnify the Information, Tabulation and Exchange Agent against certain liabilities, including liabilities arising under the U.S. federal securities laws.

DEALER MANAGER

We have retained Haitong International Securities Company Limited to act as the Dealer Manager for the Exchange Offer and Consent Solicitation. We have agreed to pay the Dealer Manager reasonable and customary fees for its services and we will reimburse the Dealer Manager for its reasonable out-of-pocket expenses, including the reasonable expenses and disbursements of its legal counsel. The obligations of the Dealer Manager to perform its functions are subject to various conditions. We have agreed to indemnify the Dealer Manager against various liabilities, including various liabilities under the U.S. federal securities laws. Questions regarding the terms of the Exchange Offer and Consent Solicitation may be directed to the Dealer Manager at its applicable address and telephone number listed on the back cover of this exchange offer and consent solicitation memorandum.

The Dealer Manager or certain of its affiliates have provided, from time to time, and in the future may provide, certain investment banking and financial advisory services to us and our affiliates, for which they have received, or in the future will receive, customary fees. In addition, the Dealer Manager or certain of its affiliates may have owned, currently own or may own, equity, debt or equity-like securities of ours.

In the ordinary course of their businesses, the Dealer Manager or certain of its affiliates may at any time hold long or short positions, and may trade for their own account or the accounts of customers, in our securities, including in the Existing Notes and the New Notes. To the extent that the Dealer Manager or certain of its affiliates own Existing Notes during the Exchange Offer and Consent Solicitation, they may tender such Existing Notes pursuant to the terms of the Exchange Offer and Consent Solicitation. Such participation, if any, will be on the same terms and subject to the same conditions set forth in this exchange offer and consent solicitation memorandum applicable to other holders of the Existing Notes.

ANNOUNCEMENTS

The announcement of the commencement of the Exchange Offer and Consent Solicitation, the final aggregate principal amount of the Existing Notes tendered and accepted for exchange, the Requisite Consent received, the final total aggregate principal amount of the New Notes and the settlement of the Exchange Offer and Consent Solicitation will be released via the website of Hong Kong Stock Exchange and the Exchange and Consent Website, and made through Euroclear or Clearstream, and will occur as specified in the section entitled "Summary Timetable" unless otherwise extended or amended. All other

announcements will be made through Euroclear or Clearstream. Significant delays may be experienced in publishing notices through Euroclear or Clearstream and the holders of the Existing Notes are urged therefore to contact the Dealer Manager or the Information, Tabulation and Exchange Agent for the relevant announcements. All announcements will be made available upon release at the offices of the Information, Tabulation and Exchange Agent in London.

The Company and the Information, Tabulation and Exchange Agent will announce the outcome of the Exchange Offer and Consent Solicitation on the dates set out in the section entitled “Summary Timetable” and the section entitled “Description of the Exchange Offer and Consent Solicitation.”

OTHER FEES AND EXPENSES

We will bear the fees and expenses of soliciting tenders and Consents for the Exchange Offer and Consent Solicitation. Tendering holders of the Existing Notes will not be required to pay any fee or commission to the Dealer Manager or the Information, Tabulation and Exchange Agent. If, however, a tendering holder handles the transaction through its broker, dealer, commercial bank, trust company or other nominee or custodian, that holder may be required to pay brokerage fees or commissions to such broker, dealer, commercial bank, trust company or other nominee or custodian.

TRANSFER TAXES

We will pay all transfer taxes, if any, applicable to the exchange of the Existing Notes pursuant to the Exchange Offer and Consent Solicitation. The tendering holder, however, will be required to pay any transfer taxes, whether imposed on the registered holder or any other person, if:

- certificates representing the Existing Notes for principal amounts not tendered or accepted for exchange are to be delivered to, or are to be issued in the name of, any person other than the registered holder of the Existing Notes tendered;
- tendered Existing Notes are registered in the name of any person other than the person signing; or
- a transfer tax is imposed for any reason other than the exchange of the Existing Notes under the Exchange Offer and Consent Solicitation.

If satisfactory evidence of payment of transfer taxes is not submitted with the tendered Existing Notes, the amount of any transfer taxes will be billed to the tendering holder.

SOURCE OF FUNDS FOR THE EXCHANGE OFFER AND CONSENT SOLICITATION

We intend to fund any cash payments for the Exchange and Consent Consideration to Eligible Holders pursuant to the Exchange Offer and Consent Solicitation, from our internal funds.

CONCURRENT TRANSACTIONS

We are conducting a separate concurrent offering to issue and sell Additional New Notes.

Any Concurrent New Money Issuance will be on terms and conditions acceptable to us at our sole discretion. There is no assurance that such Concurrent New Money Issuance will be consummated.

Upon issuance, any Additional New Notes sold in the Concurrent New Money Issuance will be on the same terms and form a single series with the corresponding New Notes issued in this Exchange Offer and Consent Solicitation.

The above concurrent transaction is not part of the Exchange Offer and Consent Solicitation and is conducted pursuant to a separate offering memorandum. See “Appendix A — Preliminary Offering Memorandum for the New Notes.”

PROPOSED AMENDMENTS

This section sets forth a brief description of the proposed changes to the Existing Notes Indenture for which Consents are being sought pursuant to this exchange offer and consent solicitation memorandum. The principal purpose of the Consent Solicitation is to obtain the Requisite Consents to eliminate and amend certain provisions in the Existing Notes Indenture.

SUMMARY OF THE PROPOSED AMENDMENTS

The Proposed Amendments would (i) allow for the issuance of the New Notes, (ii) eliminate the restrictive covenant relating to liens by amending the following provisions in the Existing Notes Indenture and (iii) align certain restrictive covenants relating to affiliate transactions in line with the terms of the New Notes (which are also identified below by their respective section references in the Existing Notes Indenture):

- amend the definition of “Permitted Liens” (Section 1.01);
- amend the definition of “Permitted Indebtedness” (Section 4.05(b)(v));
- amend the limitation on dividend and other payment restrictions affecting Restricted Subsidiaries (Section 4.08(b)(vi)); and
- amend the second paragraph of clause (b) of the limitation on transactions with shareholders and affiliates (Section 4.15).

Please refer to “Appendix B — Form of Supplemental Indenture” to this exchange offer and consent solicitation memorandum for an illustration of the Proposed Amendments to the Existing Notes Indenture discussed above in the form of marked text. Furthermore, certain conforming changes may be made to the Existing Notes Indenture.

LEGAL MATTERS

Certain legal matters with respect to this Exchange Offer and Consent Solicitation will be passed upon for us by Milbank LLP as to matters of United States federal and New York laws, Jingtian & Gongcheng LLP as to matters of Hong Kong law, Ogier as to matters of Cayman Islands and British Virgin Islands laws and Jingtian & Gongcheng as to matters of PRC law. Certain legal matters will be passed upon for the Dealer Manager by Davis Polk & Wardwell as to matters of United States federal and New York laws and Jiayuan Law as to matters of PRC law.

APPENDIX A

PRELIMINARY OFFERING MEMORANDUM FOR THE NEW NOTES

IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS OUTSIDE OF THE UNITED STATES

IMPORTANT: You must read the following before continuing. The following applies to the preliminary offering memorandum (the “offering memorandum”) following this page, and you are therefore advised to read this carefully before reading, accessing or making any other use of the offering memorandum. In accessing the offering memorandum, 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 ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “U.S. SECURITIES ACT”), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES, EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE FOLLOWING OFFERING MEMORANDUM MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE U.S. SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORIZED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES DESCRIBED THEREIN.

Confirmation and your representation: In order to be eligible to view this offering memorandum or make an investment decision with respect to the securities, investors must be outside the United States. By accepting the e-mail and accessing this offering memorandum, you shall be deemed to have represented to us that (1) you and any customers you represent are outside the United States and that the electronic mail address that you gave us and to which this e-mail has been delivered is not located in the United States and (2) that you consent to delivery of such offering memorandum by electronic transmission.

PROHIBITION OF SALES TO EEA RETAIL INVESTORS — The Notes (as defined in the attached document) 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 Directive 2014/65/EU (as amended, “MiFID II”); or (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. 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.

PROHIBITION OF SALES TO UK RETAIL INVESTORS — The Notes (as defined in the attached document) 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 (“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 (“EUWA”); or (ii) a customer within the meaning of the provisions of 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. Consequently no key information document required by Regulation (EU) No 1286/2014 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.

Within the United Kingdom, the offering memorandum is being directed solely at and may only be communicated to persons: who (i) fall within Article 19(5) or Article 49(2)(a)-(d) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, (ii) are outside the United Kingdom, or (iii) are persons to whom an invitation or inducement to engage in an investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000) in connection with the issue or sale of any securities may otherwise be lawfully communicated or caused to be communicated (all such persons collectively being referred to as “Relevant Persons”). The offering memorandum is directed only at Relevant Persons and must not be acted on or relied on by persons who are not Relevant Persons. Any investment or investment activity to which this offering memorandum relates is available only to Relevant Persons and will be engaged in only with Relevant Persons. The offering memorandum and its contents are confidential and should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other person. Any person who is not a Relevant Person should not act or rely on the offering memorandum or any of its contents.

Notification under Section 309B(1) of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”) — the Company has determined, and hereby notifies all persons (including all relevant persons (as defined in Section 309A(1) of the SFA)), that the Notes are prescribed capital markets products (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore) 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).

You are reminded that this offering memorandum has been delivered to you on the basis that you are a person into whose possession this offering memorandum may be lawfully delivered in accordance with the laws of jurisdiction in which you are located and you may not, nor are you authorized to, deliver or disclose the contents of this offering memorandum to any other person.

The materials relating to the offering 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 initial purchaser or any affiliate of the initial purchaser is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the initial purchaser or such affiliate on behalf of the issuer in such jurisdiction. This offering memorandum 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 Haitong International Securities Company Limited, as the Sole Global Coordinator, the Sole Lead Manager and the Sole Bookrunner, or any person who controls it or any director, officer, employee or agent of it or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the offering memorandum distributed to you in electronic format and the hard copy version available to you on request from the Sole Global Coordinator, the Sole Lead Manager and the Sole Bookrunner.

You are responsible for protecting against viruses and other destructive items. Your use of this e-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.

Subject to Completion

Preliminary Offering Memorandum dated January 12, 2021

OFFERING MEMORANDUM

STRICTLY CONFIDENTIAL

US\$

14.25% Senior Notes due 2024

Issue Price: 98.00%



GLORY 国瑞

GUORUI PROPERTIES LIMITED

國瑞置業有限公司

(Incorporated in the Cayman Islands with limited liability as “Glory Land Company Limited” and carrying on business in Hong Kong as Guorui Properties Limited)

Guorui Properties Limited, incorporated in the Cayman Islands under the name of “Glory Land Company Limited (國瑞置業有限公司)” (the “Company”), is offering 14.25% Senior Notes due 2024 in the aggregate principal amount of US\$ (the “Notes”). The Notes will be issued under the indenture (the “Indenture”) governing the Notes.

The Company is concurrently offering to exchange its outstanding 13.5% Senior Notes due 2022 (the “2019 Notes”) (the “Concurrent Exchange Offer”) for additional Notes to be issued by the Company, on the same terms and conditions in all respects as and from a single series with, the Notes (the “Exchange Notes”) and other exchange and consent consideration, which is being made pursuant to a separate exchange offer and consent solicitation memorandum dated January 12, 2021 (the “Exchange Offer and Consent Solicitation Memorandum”) and available only to Eligible Holders (as defined in the Exchange Offer and Consent Solicitation Memorandum) outside the United States. This offering is conditional upon completion of the Concurrent Exchange Offer. The Company’s obligation to consummate the Concurrent Exchange Offer is subject to the satisfaction of certain conditions. Upon completion of this offering and the Concurrent Exchange Offer, the aggregate principal amount of the Notes and the Exchange Notes to be issued is US\$.

The Company is also concurrently soliciting consents from Eligible Holders (as defined in the Exchange Offer and Consent Solicitation Memorandum) of the outstanding 2019 Notes to make certain amendments to the indenture governing the 2019 Notes (the “2019 Notes Indenture”), which is being made pursuant to the Exchange Offer and Consent Solicitation Memorandum.

The Notes will bear interest from , 2021 at the rate of 14.25% per annum, payable semi-annually arrear on and of each year, beginning , 2021, and will mature on , 2024.

The Notes are senior obligations of the Company, guaranteed by certain of our existing subsidiaries (the “Subsidiary Guarantors”), other than those organized under the laws of the PRC. We refer to the guaranties by the Subsidiary Guarantors as Subsidiary Guarantees. Under certain circumstances and subject to certain conditions, a Subsidiary Guarantee required to be provided by a subsidiary of us may be replaced by a limited-recourse guarantee (a “JV Subsidiary Guarantee”). We refer to the subsidiaries providing a JV Subsidiary Guarantee as JV Subsidiary Guarantors.

The holders of the Notes are entitled to the benefit of (i) an Equity Interest Pledge Agreement (“Share Charge A”) dated as of the Original Issue Date over all capital stock of Langfang Guoxing Real Estate Development Co., Ltd. (廊坊國興房地產開發有限公司) (“Langfang Guoxing”), or the “Pledge Entity A” now held or subsequently acquired by Glory (HK) Investment Limited (國瑞(香港)投資有限公司) (formerly known as Glory Real Estate (HK) Investment Limited (國瑞地產(香港)投資有限公司)) (the “Pledgor A”); and (ii) an Equity Interest Pledge Agreement (“Share Charge B”) dated as of the Original Issue Date over all capital stock of Qidong Glory Properties Limited (啟東市國瑞置業有限公司) (“Qidong Glory”), or the “Pledge Entity B”, together with Pledge Entity A, the “Pledge Entities” and each a “Pledge Entity” now held or subsequently acquired by All Affluent Holdings (HK) Limited (通裕控股(香港)有限公司) (the “Pledgor B”), together with Pledgor A, the “Pledgors”). Share Charge A and Share Charge B are collectively referred to herein as the “Share Charges”; such collateral, the “Collateral.” In addition, Mr. ZHANG Zhangsun and Ms. RUAN Wenjuan (the “Personal Guarantors”), our controlling shareholder and his spouse, will each provide a personal guarantee to the Notes pursuant to a personal guarantee agreement to be dated as of the Original Issue Date in favor of the Trustee to jointly and severally guarantee the obligations of the Company under the Notes (the “Personal Guarantees”). The Personal Guarantors will agree to use their best efforts to obtain the regulatory approvals to the extent required with respect to the Personal Guarantees.

At any time and from time to time prior to , we may redeem up to 35% of the Notes, at a redemption price of 114.25% of the principal amount, plus accrued and unpaid interest, if any, in each case, using the net cash proceeds from sales of certain kinds of capital stock. In addition, we may redeem the Notes at any time prior to , in whole but not in part, at a price equal to 100% of the principal amount of such Notes plus accrued and unpaid interest (if any) to the redemption date and a premium as set forth in this offering memorandum. Upon the occurrence of a Change of Control (as defined in the Indenture), we must make an offer to repurchase all Notes outstanding at a purchase price equal to 101% of their principal amount, plus accrued and unpaid interest, if any, to the date of repurchase. Upon the occurrence of a Delisting/Suspension Triggering Event (as defined in the Indenture), we must make an offer to repurchase all Notes outstanding at a purchase price equal to 100% of their principal amount, plus accrued and unpaid interest, if any, to the date of repurchase. Holders of the Notes have the right, at their option, to require us to repurchase for cash all of their Notes, or any portion of the principal thereof that is equal to US\$200,000 or integral multiples of US\$1,000 in excess thereof, on (the date that is 15 months after the Original Issue Date) at the repurchase price equal to 100% of the principal amount of the Notes to be repurchased, plus accrued and unpaid interest to, but excluding, (the date that is 15 months after the Original Issue Date). At any time on and from time to time after the date when no more than 10% of the aggregate principal amount of the Notes originally issued on the Original Issue Date remains outstanding, the Company may at its option redeem the Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the Notes plus accrued and unpaid interest, if any, to (but not including) the redemption date.

The Notes will be (i) senior in right of payment to any of our existing and future obligations expressly subordinated in right of payment to the Notes; (ii) senior in right of payment to any existing and future obligations of (a) any Pledge Entity or (b) to which any assets held by any Pledge Entity is subject, in each case that are owed to us or any of our Subsidiaries; (iii) at least pari passu in right of payment with all our unsubordinated indebtedness (subject to any priority rights of such unsubordinated indebtedness pursuant to applicable law); (iv) guaranteed by the Subsidiary Guarantors and the JV Subsidiary Guarantors (if any) on a senior basis, subject to the limitations described below under the caption “—The Subsidiary Guarantees and the JV Subsidiary Guarantees” in the “Description of the Notes” and in “Risk Factors—Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees, the Collateral and the Personal Guarantees”; (v) guaranteed by the Personal Guarantors subject to the limitations described below under the caption “—Personal Guarantees” in the “Description of the Notes” and in “Risk Factors—Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees, the Collateral and the Personal Guarantees”; (vi) effectively subordinated to the existing and future secured obligations (if any) of our Company, the Subsidiary Guarantors and the JV Subsidiary Guarantors, to the extent of the value of the collateral serving as security therefor (other than the Collateral); and (vii) other than as described above with respect to certain obligations of the Pledge Entities, effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries (as defined below). See the section entitled “Risk Factors—Risks relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees, the Collateral and the Personal Guarantees.”

The Company has made an application for the pre-issuance registration (the “Pre-Issuance Registration”) of the offering of the Notes with the National Development and Reform Commission (the “NDRC”) in accordance with the Notice on Accelerating Reform on the Administration of Filing and Registration of Foreign Debts Issued by Enterprises (Fa Gai Wai Zi [2015] No. 2044) (the “NDRC Notice”) (國家發展改革委關於進企業發行外債備案登記管理改革的通告) issued by the NDRC which took effect on September 16, 2015. The Company has received an Enterprise Foreign Debt Pre-Issuance Registration Certificate dated December 9, 2020 from the NDRC with respect to the pre-issuance registration. Pursuant to the requirements of the NDRC Notice, the Company will be required to submit a further application for the filing of the issue of the Notes within 10 PRC Business Days (as defined in the section entitled “Description of the Notes”) from the Issue Date of the Notes.

For a more detailed description of the Notes, see the section entitled “Description of the Notes.”

Investing in the Notes involves risks. Investors should be aware that the Notes are guaranteed by Subsidiary Guarantors which do not currently have significant operations and certain Subsidiary Guarantees may in some cases be replaced by limited-recourse guarantees and that there are various other risks relating to the Notes, the Subsidiary Guarantees, the JV Subsidiary Guarantees, the Collateral, the Personal Guarantees, the Company and its subsidiaries, their business and their jurisdictions of operations which investors should familiarize themselves with before making an investment in the Notes. See the section entitled “Risk Factors” beginning on page 20 and particularly page 56 for risks relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees, the Collateral and the Personal Guarantees.

Application will be made to The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”) for the listing of the Notes by way of debt issues 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. This document is for distribution to Professional Investors only. Notice to Hong Kong investors: The Company and the Personal Guarantors 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 Company and the Personal Guarantors 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 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 Notes on the Hong Kong Stock Exchange is not to be taken as an indication of the commercial merits or credit quality of the Notes or the Company, any Subsidiary Guarantor, any JV Subsidiary Guarantor and any Personal 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.

Application will also be made for the listing and quotation of the Notes on the Singapore Exchange Securities Trading Limited (the “SGX-ST”). The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained herein. Approval in principle for the listing and quotation of the Notes on the SGX-ST is not to be taken as an indication of the merits of the Notes, the Company, any Subsidiary Guarantor, any JV Subsidiary Guarantor or any Personal Guarantor.

For so long as the New Notes are listed on the SGX-ST and the rules of the SGX-ST so require, we will appoint and maintain a paying agent in Singapore, where the New Notes may be presented or surrendered for payment or redemption, in the event that a global note or global certificate is exchanged for definitive notes. In addition, in the event that a global note or global certificate is exchanged for definitive notes, an announcement of such exchange shall be made by or on behalf of us through the SGX-ST and such announcement will include all material information with respect to the delivery of the definitive notes, including details of the paying agent in Singapore.

The Notes are expected to be rated B- by Fitch Ratings Ltd. (“Fitch”). The rating reflects the rating agency’s assessment of the likelihood of timely payment of the principal of and interest on the Notes. The rating does not constitute recommendations to purchase, hold or sell the Notes inasmuch as such rating does not comment as to market price or suitability for a particular investment. We cannot assure you that the rating will remain in effect for any given period or that the rating will not be revised by such rating agencies in the future if in their judgment circumstances so warrant.

The Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any) have not been and will not be registered under the United States Securities Act of 1933, as amended, (the “U.S. Securities Act”), and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act. The Notes are being offered and sold by the Initial Purchaser (as defined in this offering memorandum) only outside the United States in offshore transactions in reliance on Regulation S under the U.S. Securities Act (“Regulation S”). For a description of certain restrictions on resale or transfer, see the section entitled “Transfer Restrictions.”

It is expected that the delivery of the Notes will be made on or about , 2021 through the book-entry facilities of Euroclear Bank SA/NV (“Euroclear”) and Clearstream Banking S.A. (“Clearstream”) against payment therefor in immediately available funds.

Sole Global Coordinator, Sole Lead Manager and Sole Bookrunner

Haitong International

The date of this offering memorandum is , 2021

The information contained in this preliminary offering memorandum is not complete and may be changed. This preliminary offering memorandum is not an offer to sell these securities and is not a solicitation of an offer to buy these securities in any jurisdiction where such offer, solicitation or sale is not permitted.

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This offering memorandum does not constitute an offer to sell to, or a solicitation of an offer to buy from, any person in any jurisdiction to whom it is unlawful to make the offer or solicitation in such jurisdiction. Neither the delivery of this offering memorandum nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in our affairs since the date of this offering memorandum or that the information contained in this offering memorandum is correct as of any time after that date.

IN CONNECTION WITH THIS OFFERING, HAITONG INTERNATIONAL SECURITIES COMPANY LIMITED, AS STABILIZATION MANAGER, OR ANY PERSON ACTING ON ITS BEHALF, MAY PURCHASE AND SELL THE NOTES IN THE OPEN MARKET. THESE TRANSACTIONS MAY, TO THE EXTENT PERMITTED BY APPLICABLE LAWS AND REGULATIONS, INCLUDE SHORT SALES, STABILIZING TRANSACTIONS AND PURCHASES TO COVER POSITIONS CREATED BY SHORT SALES. THESE ACTIVITIES MAY STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE MARKET PRICE OF THE NOTES. AS A RESULT, THE PRICE OF THE NOTES MAY BE HIGHER THAN THE PRICE THAT OTHERWISE MIGHT EXIST IN THE OPEN MARKET. IF THESE ACTIVITIES ARE COMMENCED, THEY MAY BE DISCONTINUED AT ANY TIME AND MUST IN ANY EVENT BE BROUGHT TO AN END AFTER A LIMITED TIME. THESE ACTIVITIES WILL BE UNDERTAKEN SOLELY FOR THE ACCOUNT OF THE STABILIZATION MANAGER, AND NOT FOR US OR ON OUR BEHALF.

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 purpose of giving information with regard to the Company, the Subsidiary Guarantors, the JV Subsidiary Guarantors and the Personal Guarantors. Each of the Company, the Subsidiary Guarantors, the JV Subsidiary Guarantors and the Personal Guarantors accepts full responsibility for the accuracy of the information contained in this document and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

We, having made all reasonable inquiries, confirm that: (i) this offering memorandum contains all information with respect to us, our subsidiaries and affiliates referred to in this offering memorandum and the Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any) that is material in the context of the issue and offering of the Notes; (ii) the statements contained in this offering memorandum relating to us and our subsidiaries and our affiliates are in every material respect true and accurate and not misleading; (iii) the opinions and intentions expressed in this offering memorandum with regard to us and our subsidiaries and affiliates 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 us, our subsidiaries and affiliates, the Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any), the omission of which would, in the context of the issue and offering of the Notes, make this offering memorandum, as a whole, misleading in any material respect; and (v) we have made all reasonable inquiries to ascertain such facts and to verify the accuracy of all such information and statements. We accept responsibility accordingly.

This offering memorandum is highly confidential. We are providing it solely for the purpose of enabling you to consider a purchase of the Notes. You should read this offering memorandum before making a decision whether to purchase the Notes. You must not use this offering memorandum for any other purpose, or disclose any information in this offering memorandum to any other person.

Notwithstanding anything to the contrary contained in this offering memorandum, a prospective investor (and each employee, representative, or other agent of a prospective investor) may disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure of the transactions described in this offering memorandum and all materials of any kind that are provided to the prospective investor relating to such tax treatment and tax structure. This authorization of tax disclosure is retroactively effective to the commencement of discussions with prospective investors regarding the transactions contemplated herein.

We have prepared this offering memorandum, and we are solely responsible for its contents. You are responsible for making your own examination of us and your own assessment of the merits and risks of investing in the Notes. By purchasing the Notes, you will be deemed to have acknowledged that you have made certain acknowledgments, representations and agreements as set forth under the section entitled “Transfer Restrictions” below.

No representation or warranty, express or implied, is made or given by Haitong International Securities Company Limited (the “Initial Purchaser”), Citicorp International Limited (the “Trustee”), Citibank, N.A., London Branch (the “Paying Agent,” the “Transfer Agent” and the “Registrar,” and collectively, the “Agents”) or any of their respective affiliates or advisors as to the accuracy, completeness or sufficiency of the information set forth herein, and nothing contained in this offering memorandum is, or should be relied upon as, a promise, representation or warranty, whether as to the past or the future. None of the Initial Purchaser, the Trustee or the Agents has independently verified any of the information contained in this offering memorandum or can give any assurance that this information is accurate, truthful or complete. To the fullest extent permitted by law, none of the Initial Purchaser, the Trustee, the Agents or any of their respective affiliates, directors or advisors accepts any responsibility for the contents of this offering memorandum or any statement made or purported to be made by any such person or on its behalf in connection with the Company, the Subsidiary Guarantors, the Group, the issue and offering of the Notes or the giving of the Subsidiary Guarantee of the Notes. Each of the Initial Purchaser, the Trustee, the Agents and their respective affiliates, directors or advisors accordingly disclaims all and any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of this offering memorandum or any such statement.

Each person receiving this offering memorandum acknowledges that: (i) such person has been afforded an opportunity to request from us and to review, and has received, all additional information considered by it to be necessary to verify the accuracy of, or to supplement, the information contained herein; (ii) such person has not relied on the Initial Purchaser, the Trustee or the Agents or any person affiliated with the Initial Purchaser, the Trustee or the Agents in connection with any investigation of the accuracy of such information or its investment decision; and (iii) no person has been authorized to give any information or to make any representation concerning us, our subsidiaries and affiliates, the Notes, the Subsidiary Guarantees or the JV Subsidiary Guarantees (other than as contained herein and information given by our duly authorized officers and employees in connection with investors' examination of our Company and the terms of the offering of the Notes) and, if given or made, any such other information or representation should not be relied upon as having been authorized by us or the Initial Purchaser, the Trustee or the Agents.

The Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any) have not been approved or disapproved by the United States Securities and Exchange Commission (the "SEC"), any state securities commission in the United States or any other United States regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering or the accuracy or adequacy of this offering memorandum. Any representation to the contrary is a criminal offense in the United States.

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 Directive 2014/65/EU (as amended, "MiFID II"); or (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. 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.

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 ("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 ("EUWA"); or (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 ("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. Consequently no key information document required by Regulation (EU) No 1286/2014 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.

Notification under Section 309B(1) of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA") — the Company has determined, and hereby notifies all persons (including all relevant persons (as defined in Section 309A(1) of the SFA)), that the Notes are prescribed capital markets products (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore) 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).

We are not, and the Initial Purchaser is not, making an offer to sell the Notes, including the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any), in any jurisdiction except where an offer or sale is permitted. The distribution of this offering memorandum and the offering of the securities, including the Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any), may in certain jurisdictions be restricted by law. Persons into whose possession this offering memorandum comes are required by us and the Initial Purchaser to inform themselves about and to observe any such restrictions. For a description of the restrictions on offers, sales and resales of the securities, including the Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any), and distribution of this offering memorandum, see the sections entitled “Transfer Restrictions” and “Plan of Distribution” below.

This offering memorandum summarizes certain material documents and other information, and we refer you to them for a more complete understanding of what we discuss in this offering memorandum. In making an investment decision, you must rely on your own examination of us and the terms of the offering, including the merits and risks involved. We are not making any representation to you regarding the legality of an investment in the Notes by you under any legal, investment or similar laws or regulations. You should not consider any information in this offering memorandum to be legal, business or tax advice. You should consult your own professional advisors for legal, business, tax and other advice regarding an investment in the Notes.

We reserve the right to withdraw the offering of the Notes at any time, and the Initial Purchaser reserves the right to reject any commitment to purchase the Notes in whole or in part and to allot to any prospective purchaser less than the full amount of the Notes sought by such purchaser. The Initial Purchaser and certain related entities may acquire for their own account a portion of the Notes.

CERTAIN DEFINITIONS, CONVENTIONS AND CURRENCY PRESENTATION

We have prepared this offering memorandum using a number of conventions, which you should consider when reading the information contained herein. When we use the terms “we,” “us,” “our,” the “Company,” the “Group” and words of similar import, we are referring to Guorui Properties Limited (國瑞置業有限公司), an exempted company with limited liability incorporated in the Cayman Islands under the name of “Glory Land Company Limited (國瑞置業有限公司)” and carrying on business in Hong Kong as “Guorui Properties Limited,” and its consolidated subsidiaries, as the context requires.

Market data, industry forecast and the PRC and property industry statistics in this offering memorandum have been obtained from both public and private sources, including market research, publicly available information and industry publications. Although we believe this information to be reliable, it has not been independently verified by us or the Initial Purchaser or our or its directors and advisors, and neither we, the Initial Purchaser nor our or its directors and advisors make any representation as to the accuracy or completeness of that information. In addition, third-party information providers may have obtained information from market participants and such information may not have been independently verified. Due to possibly inconsistent collection methods and other problems, such statistics herein may be inaccurate. You should not unduly rely on such market data, industry forecast and the PRC and property industry statistics.

In this offering memorandum, all references to “US\$” and “U.S. dollars” are to United States dollars, the official currency of the United States of America (the “United States” or “U.S.”); all references to “HK\$” and “H.K. dollars” are to Hong Kong dollars, the official currency of the Hong Kong Special Administrative Region of the PRC (“Hong Kong” or “HK”); and all references to “RMB” or “Renminbi” are to the Renminbi, the official currency of the People’s Republic of China (“China” or the “PRC”).

We record and publish our financial statements in Renminbi. Unless otherwise stated in this offering memorandum, all translations from Renminbi amounts to U.S. dollar amounts were made at the rate of RMB7.0651 to US\$1.00, the noon buying rate in New York City for cable transfers payable in Renminbi as certified for customs purposes by the Federal Reserve Bank of New York on June 30, 2020. All such translations in this offering memorandum are provided solely for your convenience and no representation is made that the Renminbi amounts referred to herein have been, could have been or could be converted into U.S. dollars or H.K. dollars, or vice versa, at any particular rate, or at all. All amounts converted into U.S. dollars contained in this offering memorandum are unaudited and for reference purposes only. For further information relating to the exchange rates, see the section entitled “Exchange Rate Information.”

References to “PRC” and “China,” in the context of statistical information and description of laws and regulations in this offering memorandum, except where the context otherwise requires, do not include Hong Kong, Macau Special Administrative Region of the PRC (“Macau”), or Taiwan. “PRC government” or “State” means the central government of the PRC, including all political subdivisions (including provincial, municipal and other regional or local governments) and instrumentalities thereof, or, where the context requires, any of them.

Our financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”) which differ in certain respects from generally accepted accounting principles in certain other jurisdictions. Unless the context otherwise requires, references to “2017”, “2018” and “2019” in this offering memorandum are to our financial years ended December 31, 2017, 2018 and 2019, respectively, and references to “first half of 2019” and “first half of 2020” in this offering memorandum are to the six months ended June 30, 2019 and 2020, respectively.

References to “Alltogether” are to Alltogether Land Company Limited (通和置業有限公司), an exempted company with limited liability that was incorporated in the BVI on July 4, 2012.

References to “average selling price” or “ASP” are to the average selling price on a gross basis, unless otherwise stated.

References to “Board of Directors” or “Board” are to the board of Directors of the Company.

References to “BRI” are to The Belt and Road Initiative or the Silk Road Economic Belt and the 21st-century Maritime Silk Road.

References to “CAGR” are to the compound annual growth rate.

References to “CBD” are to central business district.

References to the “CBRC” are to China Banking Regulatory Commission (中國銀行業監督管理委員會).

References to “completion certificate” are to the construction works completion inspection certificate (房屋建築工程竣工驗收備案表) issued by local urban construction bureau or equivalent authorities in the PRC with respect to the completion of property projects subsequent to their on-site examination and inspection.

References to the “Concurrent Exchange Offer” are to the exchange offer made by the Company upon the terms and subject to the conditions set forth in the Exchange Offer and Consent Solicitation Memorandum to exchange its outstanding 2019 Notes for New Notes and other exchange and consent consideration, available only to eligible holders outside the United States.

References to the “Consent Solicitation” are to the Company’s solicitation of consents from the Eligible Holders (as defined in the Exchange Offer and Consent Solicitation Memorandum) of the 2019 Notes, through electronic means, to amend certain covenants and other provisions in the 2019 Notes Indenture.

References to “contracted ASP” are to average selling price for contracted sales.

References to “contracted sales” are to purchase price of formal purchase contracts we entered into with purchasers of our properties. We compile contracted sales information through our internal records, and such information has not been audited or reviewed by our auditors. As these sales and purchases contracts are subject to termination or variation under certain circumstances pursuant to their contractual terms, or subject to default by the relevant purchasers, they are not a guarantee of current or future contracted sales. Recipients should in no event treat such contracted sales information as an indication of our revenue or profitability. Our subsequent revenue recognized from such contracted sales may be materially different from such contracted sales. Accordingly recipients should not place undue reliance on this information.

References to “construction commencement permit” are to the construction works commencement permit (建築工程施工許可證) issued by local construction bureau or equivalent authorities in the PRC with respect to commencement of construction works.

References to “construction land planning permit” are to the construction land planning permit (建設用地規劃許可證) issued by local urban zoning and planning bureau or equivalent authorities in the PRC with respect to planning of construction land.

References to “construction works planning permit” are to the construction works planning permit (建設工程規劃許可證) issued by local urban zoning and planning bureau or equivalent authorities in the PRC with respect to planning of construction works.

References to “CSRC” are to the China Securities Regulatory Commission (中國證券監督管理委員會).

References to “development projects,” “property projects” or “projects” refer to our property projects with land for which we have obtained land-use rights and property projects for which we have not obtained land-use rights but have entered into the land grant contracts or received successful tender auction confirmations.

References to “Director(s)” are to the director(s) of the Company.

References to “EIT” are to the PRC Enterprise Income Tax.

References to “Exchange Notes” or “New Notes” are to additional Notes to be issued by the Company under the Concurrent Exchange Offer, on the same terms and conditions in all respects as and form a single series with, the Notes, which is being made pursuant to Exchange Offer and Consent Solicitation Memorandum and available only to Eligible Holders (as defined therein) outside the United States.

References to “Exchange Offer and Consent Solicitation Memorandum” are to a separate exchange offer memorandum dated January 12, 2021 as supplemented and amended from time to time in connection with the Concurrent Exchange Offer and the Consent Solicitation.

References to “GDP” are to the gross domestic product.

References to “GFA” are to the gross floor area; references to “leasable GFA” are to the GFA attributable to the land parcel for leasing and investment appreciation purposes; references to “planned GFA” are to the GFA attributable to the land parcel for future development based on the relevant land grant contract and/or public tender, listing-or-sale of auction confirmation letter; references to “saleable GFA” are to the GFA attributable to the land parcel for sale minus the GFA attributable to car parks, non-saleable areas and public areas; references to “total GFA” are to the GFA attributable to the above-ground and underground saleable and/or leasable area contained within the external walls of any building at each floor level and the whole thickness of the external walls of the relevant project together with other non-leasable and non-saleable area and it generally includes mechanical and electrical services rooms, refuse rooms, water tanks, car parks, elevators and staircases. The figures for GFA are based on figures provided in or estimates based on relevant governmental documents, such as property ownership certificates, construction works planning permits, pre-sale permits, construction land planning permits, completion certificates, land use rights certificates or other relevant documents and include saleable areas, non-saleable areas, car parks and public areas.

References to “independent third party(ies)” are to individual(s) or a company(ies) who is/are not considered a connected person of our Company under the Listing Rules.

References to “land grant contract” are to the state-owned land use right grant contract (國有土地使用權出讓合同) between a land user and the relevant PRC governmental land administrative authorities.

References to “land use rights certificate” are to the state-owned land use rights certificate (國有土地使用證), a certificate (or certificates, as the case may be) of the right of a party to use a parcel of land.

References to “LAT” are to the land appreciation tax, as defined in the PRC Provisional Regulations on Land Appreciation Tax (《中華人民共和國土地增值稅暫行條例》) of 1994 and its implementation rules.

References to “MLR” are to the Ministry of Land and Resources of the PRC (中華人民共和國國土資源部).

References to “MOF” are to the Ministry of Finance of the PRC (中華人民共和國財政部).

References to “MOFCOM” are to the Ministry of Commerce of the PRC (中華人民共和國商務部), or its predecessor, the Ministry of Foreign Trade and Economic Cooperation of the PRC (中華人民共和國對外貿易經濟合作部), as appropriate to the context.

References to “NDRC” are to the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會).

References to “Notice 19” are to the Measures for the Administration of Foreign Debt Registration (《外債登記管理辦法》) issued by SAFE on April 28, 2013 and became effective on May 13, 2013 and was amended on May 4, 2015.

References to “Notice 37” are to the Notice on Relevant Issues Concerning Foreign Exchange Administration for Domestic Residents to Engage in Onshore and Offshore Financing, Investment and Return Investment via Overseas Special Purpose Vehicles (《國家外匯管理局關於境內居民通過境外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》) issued by SAFE on July 4, 2014 and became effective July 4, 2014.

References to “Notice 50” are to the Circular on the Reinforcement and Regulation of 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》) issued by MOFCOM and SAFE on May 23, 2007 and became effective on May 23, 2007 and was amended on October 28, 2015.

References to “Notice 75” are to the Notice on Relevant Issues Concerning Foreign Exchange Administration for Domestic Residents to Engage in Financing and Return Investment via Overseas Special Purpose Vehicles (《國家外匯管理局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》) issued by SAFE on October 21, 2005 and was superseded by Notice 37 on July 4, 2014.

References to “NPC” are to the National People’s Congress or its standing committee as the context may require (全國人民代表大會或其常務委員會).

References to “Original Beijing Glory” are to Beijing Glory Xingye Real Estate Co., Ltd. (北京國瑞興業地產股份有限公司).

References to “PBOC” are to the People’s Bank of China (中國人民銀行), the central bank of the PRC.

References to “People’s Congress” are to the legislative apparatus of the PRC, including the National People’s Congress and all the local people’s congresses (including provincial, municipal and other regional or local people’s congresses) as the context may require, or any of them (人民代表大會).

References to “plot ratio” are to the ratio of the GFA (excluding floor area below ground) of all buildings to their site area.

References to “pre-sale permit” are to the commodity property pre-sale permit (商品房預售許可證) issued by a local housing and building administrative bureau or an equivalent authority with respect to pre-sale of the relevant properties.

References to “property ownership certificate” are to the property ownership certificate (房屋所有權證) issued by relevant PRC government authorities with respect to the ownership rights of buildings.

References to “public tender,” “auction,” or “listing-for-sale” are to the public tender, auction or listing at a land exchange administered by the local government, each of which is a competitive bidding process through which a purchaser acquires land use rights directly from the PRC government.

References to “SAFE” are to the State Administration of Foreign Exchange of the PRC (中國國家外匯管理局) or its local branches as the case may be.

References to “SAIC” are to the State Administration for Industry and Commerce of the PRC (中國國家工商管理總局).

References to “SAT” are to the State Administration of Taxation of the PRC (中國國家稅務總局).

References to “share” are to, unless the context indicates otherwise, an ordinary share, with a nominal value of HK\$0.10, in our share capital.

References to “shareholders” are to holder(s) of our share(s).

References to “specialized markets” are to home furnishing and decoration materials retail centers and auto parts retail stores.

References to “sq.km.” are to square kilometers.

References to “sq.m.” are to square meters.

Reference to the “2019 Notes” are to the US\$160 million 13.5% senior notes due 2022 issued by the Company in February 2019 and the US\$295 million 13.5% senior notes due 2022 issued by the Company in March 2019.

References to the “2019 Notes Indenture” are to the indenture dated February 27, 2019 governing the 2019 Notes.

Reference to the “2019 Private Placement Notes” are to the US\$100 million 15% senior notes due 2021 issued by the Company in April 2019, which have been fully redeemed in January 2021.

In this offering memorandum, 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.

The English names of the PRC nationals, entities, departments, facilities, laws, regulations, certificates, titles and the like are translations of their Chinese names and are included for identification purposes only. In the event of any inconsistency, the Chinese name prevails.

FORWARD-LOOKING STATEMENTS

This offering memorandum contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include statements relating to:

- our business and operating strategies and our ability to implement such strategies;
- our capital expenditure and property development plans;
- our ability to further develop and manage our projects as planned;
- our capital commitment plans, particularly, plans relating to acquisition of land for our property development and the development of our projects;
- our operations and business prospects, including development plans for our existing and new businesses;
- the regulatory environment in terms of changes in laws and PRC government regulations, policies and approval processes in the regions where we operate as well as the general industry outlook for the PRC real estate industry;
- the interpretation and implementation of the existing rules and regulations relating to land appreciation tax and its future changes in enactment, interpretation or enforcement;
- the prospective financial information regarding our businesses;
- availability and costs of bank loans and other forms of financing;
- our dividend distribution plans;
- projects under development or held for future development;
- the regulatory environment of our industry in general;
- future developments and the competitive environment in the PRC real estate industry;
- changes in political, economic, legal and social conditions in the PRC, including the specific policies of the PRC central and local governments affecting the regions where we operate, which affect land supply, availability and cost of financing, and pre-sale, pricing and volume of our property development projects;
- significant delay in obtaining the various permits, proper legal titles or approvals for our properties under development or held for future development;
- timely repayments by our purchasers of mortgage loans guaranteed by us;
- changes in competitive conditions and our ability to compete under these conditions;
- the performance of the obligations and undertakings of the third-party contractors under various construction, building, interior decoration, material and equipment supply and installation contracts;
- changes in currency exchange rates and interest rates; and
- other factors beyond our control.

In some cases, you can identify forward-looking statements by such terminology as “may,” “will,” “should,” “could,” “would,” “expect,” “intend,” “plan,” “anticipate,” “going forward,” “ought to,” “seek,” “project,” “forecast,” “believe,” “estimate,” “predict,” “potential” or “continue” or the negative of these terms or other comparable terminology. Such statements reflect the current views of our management with respect to future events, operations, results, liquidity and capital resources and are not guarantee of future performance and some of which may not materialize or may change. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we cannot assure you that those expectations will prove to be correct, and you are cautioned not to place undue reliance on such statements. In addition, unanticipated events may adversely affect the actual results we achieve. Important factors that could cause actual results to differ materially from our expectations are disclosed under the section entitled “Risk Factors” in this offering memorandum. Except as required by law, we undertake no obligation to update or otherwise revise any forward-looking statements contained in this offering memorandum, whether as a result of new information, future events or otherwise after the date of this offering memorandum. All forward-looking statements contained in this offering memorandum are qualified by reference to the cautionary statements set forth in this section.

ENFORCEMENT OF CIVIL LIABILITIES

We are an exempted company incorporated in the Cayman Islands with limited liability, and each Subsidiary Guarantor and JV Subsidiary Guarantor (if any) is also incorporated or may be incorporated, as the case may be, outside the United States, such as Hong Kong. The Cayman Islands, Hong Kong and other jurisdictions have different bodies of securities laws from the United States and protections for investors may differ.

All of our assets and all of the assets of the initial Subsidiary Guarantors are, and all of the assets of any future Subsidiary Guarantors or JV Subsidiary Guarantors may be, located outside the United States. In addition, all of our directors and officers (including the Personal Guarantors) and the directors and officers of the initial Subsidiary Guarantors are, and the directors and officers of any future Subsidiary Guarantors or JV Subsidiary Guarantors may be, nationals or residents of countries other than the United States (principally of the PRC), and all or a substantial portion of such persons' assets are or may be located outside the United States. As a result, it may be difficult for investors to effect service of process within the United States upon us, any of the initial Subsidiary Guarantors or future Subsidiary Guarantors or JV Subsidiary Guarantors or such directors and officers (including the Personal Guarantors) or to enforce against us or any of the initial Subsidiary Guarantors or future Subsidiary Guarantors or JV Subsidiary Guarantors or such directors and officers (including the Personal Guarantors) judgments obtained in United States courts, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state thereof.

We and each of the Subsidiary Guarantors have appointed, and each of the JV Subsidiary Guarantors (if any) expect to appoint, Law Debenture Corporate Services Inc. as our and their respective agent to receive service of process with respect to any action brought against us or any such Subsidiary Guarantor or JV Subsidiary Guarantor in the United States federal courts located in the Borough of Manhattan, the City of New York under the federal securities laws of the United States or of any state of the United States or any action brought against us or any such Subsidiary Guarantor or JV Subsidiary Guarantor (if any) in the courts of the State of New York in the Borough of Manhattan, the City of New York under the securities laws of the State of New York.

We have been advised by our Cayman Islands legal advisor, Ogier, that the courts of the Cayman Islands are unlikely (i) to recognize or enforce against the company judgments of courts of the United States predicated upon the civil liability provisions of the securities laws of the United States or any state; and (ii) in original actions brought in the Cayman Islands, to impose liabilities against us predicated upon the civil liability provisions of the securities laws of the United States or any state, on the grounds that such provisions are penal in nature. However, in the case of laws that are not penal in nature, although there is no statutory enforcement in the Cayman Islands of judgments obtained in the United States, the courts of the Cayman Islands will recognize and enforce a foreign money judgment of a foreign court of competent jurisdiction without retrial on the merits based on the principle that a judgment of a competent foreign court imposes upon the judgment debtor an obligation to pay the sum for which judgment has been given provided certain conditions are met. For a foreign judgment to be enforced in the Cayman Islands, such judgment must be rendered by a court with proper jurisdiction over the parties subject to such judgment final and conclusive in personam and for a liquidated sum (and in certain circumstances, for non-monetary reliefs), and enforced within six years of the date of such judgment, and must not be in respect of taxes or a fine or penalty, inconsistent with a Cayman Islands judgment in respect of the same matter, impeachable on the grounds of fraud or obtained in a manner, and or be of a kind the enforcement of which is, contrary to natural justice or the public policy of the Cayman Islands (awards of punitive or multiple damages may well be held to be contrary to public policy). A Cayman Islands court may stay enforcement proceedings if concurrent proceedings are being brought elsewhere.

We have been advised by Jingtian & Gongcheng LLP, our Hong Kong legal advisor, that as Hong Kong has no statutory or other arrangement for the reciprocal enforcement of judgments with the United States, a judgment obtained in the courts of New York cannot be enforced by registration in Hong Kong. Subject to the Foreign Judgments (Restriction on Recognition and Enforcement) Ordinance (Chapter 46 of the Laws of Hong Kong) (the “FJO”), a final and conclusive judgment given by the courts of New York could form the basis of a claim in the Hong Kong courts in respect of the judgment debt for which an application for summary judgment could be made if:

- (a) recognition and/or enforcement of the judgment is not restricted by operation of the provisions of the FJO;
- (b) the judgment was not obtained by fraud, misrepresentation or mistake nor obtained in proceedings which contravene the rules of natural justice;
- (c) enforcement of the judgment would not be contrary to public policy in Hong Kong;
- (d) the relevant court in New York had jurisdiction in accordance with the Hong Kong rules on the conflict of laws;
- (e) the judgment is for a definite sum of money which is not payable in respect of taxes or other charges of a similar nature or in respect of a fine or other penalty; and
- (f) the judgment is final and conclusive between the parties, but if it is capable of being appealed or an appeal is pending, the proceedings in Hong Kong are likely to be stayed by the courts of Hong Kong pending any such appeal being heard.

Pursuant to the Civil Procedure Law of the PRC, the Arrangement of the Supreme People’s Court between the Mainland and the HKSAR on Reciprocal Recognition and Enforcement of the Decisions of Civil and Commercial Cases under Consensual Jurisdiction (最高人民法院關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排) and the Arrangements of the Supreme People’s Court on Mutual Recognition and Execution of Arbitral Awards between Mainland and Hong Kong Special Administrative Region (最高人民法院關於內地與香港特別行政區相互執行仲裁裁決的安排), subject to the requirements on the recognition and enforcement of judgments or arbitration awards provided therein, a final decision of payment with enforcement made by a court of the Hong Kong in a civil or commercial case under a written jurisdiction agreement or an arbitration award made in Hong Kong may be recognized and enforceable by the competent PRC courts. However, we have also been advised by our PRC legal advisors, Jingtian & Gongcheng, that the PRC does not have treaties providing for the reciprocal recognition and enforcement of judgments awarded by courts in the United States and there is uncertainty as to whether the courts of the PRC would (i) enforce judgments of U.S. courts obtained against us, our directors or officers (including the Personal Guarantors), any Subsidiary Guarantor, any JV Subsidiary Guarantor or their respective directors or officers predicated upon the civil liability provisions of the U.S. federal or state securities laws or (ii) entertain original actions brought in China against us, our directors or officers (including the Personal Guarantors), any Subsidiary Guarantor, any JV Subsidiary Guarantor or their respective directors or officers predicated upon the U.S. federal or state securities laws.

SUMMARY

This summary does not contain all the information that may be important to you in deciding to invest in the Notes. You should read the entire offering memorandum, including the section entitled “Risk Factors” and our consolidated financial statements and related notes thereto, before making an investment decision.

Overview

We are a fast growing residential property developer with commercial property operations. We focus on developing residential projects and large-scale mixed-use complex projects in the PRC. We also selectively retain the ownership of a substantial amount of self-developed commercial properties with strategic value to generate stable and recurring rental income. In addition, we undertake primary land development projects in order to access potentially available land reserves for property development and diversify our sources of income.

Founded in Guangdong Province, we commenced our property development operations in the late 1990s and since then have significantly grown our business in Beijing and successfully expanded into other selected cities with rapid growth in China, including, amongst others, Haikou and Wanning in Hainan Province, Shantou and Foshan in the Pearl River Delta region, Shenyang in Liaoning Province, Zhengzhou in Henan Province, Langfang in Hebei Province, Xi’an in Shaanxi Province, Shenzhen in Guangdong Province, Suzhou and Qidong in Jiangsu Province. As a result, we have established a strategic nationwide coverage that is centered around Beijing and the Pearl River Delta region and covers a number of selected major areas with rapid economic growth in China. We plan to continue to deepen the operation in cities where we have strategic presence, focused on the key cities in the four major regions, being the Beijing Tianjin Hebei region, the Yangtze River Delta region, the Pearl River Delta region and the economic corridor of the BRI. In view of the increased policy and financial pressure in first-tier cities including Beijing, Shanghai, Guangzhou and Shenzhen, we will strictly control risks, remain cautious in countercyclical land acquisition and avoid acquisition of any land that we believe is overpriced. At present, the core districts in second-tier cities are capable of competing with first-tier cities, and the outbound expansion trend of second-tier cities has emerged with obvious urban spillover effects, new districts in second-tier cities are good for investment. Meanwhile, the demand for low-density products for improved residential purpose is gradually increasing in areas surrounding second-tier cities, giving rise to development opportunities in the future to some extent. In respect of third- and fourth-tier cities, we select land with strong supporting resources, such as the government, schools, hospitals, subways, core commercial areas and other regional strong resources, with a view to avoiding the risks arising from limited market capability faced by third- and fourth-tier cities.

We operate in four business segments: property development, primary land construction and development services, property investment and property management and related services. The following is a brief overview of our current business segments:

- **Property development:** We focus on developing residential projects and large-scale mixed-use complex projects that typically consist of a combination of residential properties with a variety of commercial properties. We offer a wide range of residential properties to meet the demand of the middle-to-upper class customers. In addition, we also develop commercial properties for sale or lease. We plan to develop Grade A office buildings in central business districts of first-tier cities and second-tier cities that are provincial capitals in the PRC as we expect market demand for such properties will grow significantly. As of June 30, 2020, we had completed 16 projects and certain phases of 13 projects with a total GFA of 7.8 million sq.m.
- **Primary land construction and development services:** We undertake primary land development projects in order to access potentially available land reserves for property development and diversify our sources of income. Primary land development refers to the process of preparing

land to conditions ready for public tender, auction and listing-for-sale. It typically involves relocating existing business establishments and residents on the land, demolishing existing buildings and other structures, clearing the site and installing basic infrastructure for future commercial property development. As of June 30, 2020, we had completed 30 primary land development projects and we were undertaking primary land development projects and products developed under urban renewal projects with a total development area of 5.8 million sq.m. and 51.6% of which were in Shenzhen.

- Property investment: We selectively retain the ownership of a substantial amount of self-developed commercial properties with strategic value to generate stable and recurring rental income. As of June 30, 2020, we had investment properties located at commercial centers in Beijing, Shenyang, Shantou, Shenzhen Haikou and Foshan with a total GFA of 983,960 sq.m.
- Property management and related services: We provide property management and related services to owners of the properties developed by us and generate income from providing such services.

With respect to both “sales” and “land reserves”, we place our core resources in first-tier and second-tier cities as well as certain hot-spot cities in China. Based on our contracted sales data for the six months ended June 30, 2020, our sales performance was mainly from Beijing, Foshan and Suzhou, amounting to RMB4,057.8 million, RMB865.5 million and RMB556.5 million, respectively, representing 54.3%, 11.6% and 7.4% of our total contracted sales, respectively.

We have acquired substantial and strategically located land reserves at low costs to support our property development operations. As of June 30, 2020, we had land reserves with a total GFA of 15.0 million sq.m. in 21 cities in the PRC, comprising a total GFA of 1.1 million sq.m. completed but remaining unsold, a total GFA of 7.0 million sq.m. under development and a total GFA of 6.9 million sq.m. held for future development. We implement a standardized and streamlined process for developing property projects, supported by a comprehensive information technology system and a proprietary bank of product designs, which, together with our two-tier management structure and centralized procurement practice, enables us to enhance our operational efficiency while effectively managing our risks.

For the years ended December 31, 2017, 2018 and 2019, our contracted sales were RMB14,876.7 million, RMB21,912.8 million and RMB23,915.4 million (US\$3,385.0 million), respectively, representing a CAGR of 26.8%. For the six months ended June 30, 2020, our contracted sales were approximately RMB7,478.8 million (US\$1,058.6 million), representing a decrease of 41.7% as compared to the six months ended June 30, 2019. The contracted GFA was 375,746 sq.m., representing a decrease of 37.9% as compared to the six months ended June 30, 2019.

For the years ended December 31, 2017, 2018 and 2019 and for the six months ended June 30, 2019 and 2020, our revenue was RMB6,787.4 million, RMB6,612.5 million, RMB8,093.2 million (US\$1,145.5 million), RMB3,774.9 million and RMB3,322.4 million (US\$470.3 million), respectively, and our total comprehensive income for the same periods was RMB2,283.2 million, RMB1,562.0 million, RMB1,222.5 million (US\$173.0 million), RMB572.8 million and RMB281.0 million (US\$39.8 million), respectively. Revenue from property development for the year ended December 31, 2018 was RMB5,924.6 million, representing a decrease of 7.2% as compared to the year ended December 31, 2017. This decrease was primarily due to the uneven pace of completion and delivery for the year ended December 31, 2018. The increase in revenue from 2018 to 2019 was primarily due to the increased revenue from property development. Revenue from property development for the year ended December 31, 2019 was RMB7,256.7 million, representing an increase of 22.5% as compared to the year ended December 31, 2018. This increase was primarily due to the increase of property development GFA delivered for the year ended December 31, 2019. Revenue from property development for the six months ended June 30, 2020 was RMB2,915.4 million (US\$412.6 million), representing a decrease of 14.5% as compared to the six months ended June 30, 2019. This decrease was primarily due to the uneven pace of completion and delivery for the period.

Our Competitive Strengths

We believe the following are our key competitive strengths to support our sustainable and profitable growth:

- We have acquired substantial and strategically located land reserves at low costs
- Our investment properties located at commercial centers provide us with a stable and recurring revenue source
- Our primary land construction and development business allows us to access strategically located land reserves
- We have established a strategic nationwide coverage
- We have an established track record in developing large-scale mixed-use complex projects
- We have diverse sales channels and an effective sales and marketing team
- We have established a strong brand supported by our product design and strict quality control
- We are able to constantly improve our product design to meet the evolving market demand
- We have an effective management structure with a standardized and streamlined process
- We have a highly experienced and motivated senior management team

Our Strategies

Our goal is to become a leading property developer in the PRC. We plan to implement the following strategies to achieve our goal:

- Focus on Beijing and the Pearl River Delta region, and identify other suitable markets with high growth potential
- Continue to maintain an optimal mix of properties for sale and for investment, while further strengthening our well-recognized brand name
- Develop Grade A office buildings in central business districts of first-tier cities and second-tier cities that are provincial capitals in the PRC
- Continue to improve our operational efficiency
- Attract, retain and motivate talented personnel through systematic training programs and competitive remuneration packages
- Facilitate the sustainable development of the environment and the community

Recent Developments

Concurrent Transactions

Concurrently with the offering of the Notes, we are conducting the Concurrent Exchange Offer pursuant to the Exchange Offer and Consent Solicitation Memorandum. Pursuant to the Concurrent Exchange Offer, we expect to issue the Exchange Notes, which will have the same terms as and form a single class with the respective Notes issued in this offering. The Exchange Notes are expected to be delivered on the same date as the Notes. This offering is conditional upon completion of the Concurrent Exchange Offer. Our obligation to consummate the Exchange Offer is subject to the satisfaction of certain conditions. The aggregate principal amount of the Exchange Notes and the Notes to be issued pursuant to the Exchange Offer and this offering is US\$.

We are also concurrently soliciting consents from Eligible Holders (as defined in the Exchange Offer and Consent Solicitation Memorandum) of the outstanding 2019 Notes to make certain amendments to the 2019 Notes Indenture, which is being made pursuant to the Exchange Offer and Consent Solicitation Memorandum.

Redemption of the 2019 Private Placement Notes

On January 9, 2021, we completed the full redemption of the 2019 Private Placement Notes at a redemption price equal to the principal amount of the 2019 Private Placement Notes plus accrued interest to the maturity date. As a result of the redemption, there are no outstanding 2019 Private Placement Notes. We are currently in the process of discussing with the sole investor of the 2019 Private Placement Notes on potential transactions as part of the overall refinancing arrangements of the 2019 Placement Notes, subject to market conditions and the final terms thereof.

Termination of Capital Contribution Arrangement

On August 31, 2017, Shantou Garden Group Co., Ltd. (汕頭花園集團有限公司) (“Garden Group”), a limited liability company established in the PRC and an indirect wholly-owned subsidiary of us, signed seven agreements to subscribe for/acquire 10% equity interest in each of the seven companies (namely, Guangdong Hongtai Guotong, Guangdong Guosha, Tianjin Tianfu Rongsheng, Sanya Jingheng, Handan Guoxia, Chongqing Guosha and Jiangmen Yinghuiwan). The seven companies and Shijiazhuang Guosha are collectively referred to as the Target Companies. On April 27, 2018, we signed seven additional capital contribution agreements with these Target Companies and their existing shareholders, respectively, to (i) acquire 10% equity interest held by Garden Group in the seven Target Companies (other than Shijiazhuang Guosha); (ii) make further capital contributions in the seven Target Companies (other than Shijiazhuang Guosha); and (iii) cooperate in their real estate projects. On November 23, 2018, Beijing Guoxing Wanxun Technology and Trade Consulting Co., Ltd. (北京國興萬訊科貿諮詢有限公司) (“Guoxing Wanxun”), a limited liability company established in the PRC and an indirect wholly-owned subsidiary of us, signed a capital contribution agreement to subscribe for 51% equity interest in Shijiazhuang Guosha. All of these Target Companies are named as unrestricted subsidiaries under the 2019 Notes.

On November 23, 2020, we entered into eight termination agreements with the Target Companies and their respective existing shareholders to terminate the capital contribution arrangements. Upon completion of the termination agreements, as we will cease to hold any equity interest in the Target Companies, the financial results of each of the Target Companies will cease to be consolidated into those of us. The net assets of the Target Companies held by us is approximately RMB2,346.85 million as of June 30, 2020 and we estimate that the completion of the termination agreements will record a loss of approximately RMB553.89 million due to the applicable accounting treatment. Due to the project delivery and settlement schedules of the property projects developed by these Target Companies and their historical land bank and contracted sales contributions to our property portfolio, we believe that these Target Companies have contributed a significant portion to our total revenue and profit in the recent periods and therefore, the termination of these capital contribution arrangements may adversely affect our business operations and financial performance in recent periods. However, from the perspective of long-term development strategy, we believe such terminations are in the interest of our Company and our shareholders as a whole in terms of our cash flow and financing cost management and sales performance in light of current market situation and economic environment. See “Risk Factors — Risks Relating to Our Business — We may not be able to execute our contemplated expansion plan successfully.”

On December 14, 2020, we had an extraordinary general meeting and a voting on the proposed resolutions to approve the eight termination agreements with the Target Companies was taken by poll. The proposed resolutions to approve the eight termination agreements were passed as ordinary resolution by our shareholders.

Unless otherwise indicated, the description of our business operation as of June 30, 2020 in this offering memorandum, including our various development projects, have not reflected such termination.

Property Management and Commercial Management Service Transactions

On September 29, 2020, (i) we and Beijing Glory Property Services Co., Ltd. (北京國瑞物業服務有限公司) (“Glory Services”) entered into the new property management services framework agreement to engage Glory Services to provide property management related services; (ii) the members of our Group and the members of the commercial management services group (excluding Xi’an Ruihe Xingda Commercial Management Co., Ltd. (西安瑞和興達商業管理有限公司) (“Xi’an Ruihe”) and Hainan Glory Industrial Commercial Management Co., Ltd. (海南國瑞興業商業管理有限公司) (“Hainan Glory Commercial”)) respectively entered into six new commercial management services agreements to engage the commercial management services group (excluding Xi’an Ruihe and Hainan Glory Commercial) to provide commercial management related services. The above new agreements are effective retrospectively from September 20, 2020 to September 19, 2023.

On September 29, 2020, in order to better manage commercial property projects of our Group, members of our Group entered into two new commercial management services agreements respectively with Xi’an Ruihe and Hainan Glory Commercial (as two new members of the commercial management services group), pursuant to which our Group engages Xi’an Ruihe and Hainan Glory Commercial to provide commercial management related services. The above new agreements are effective retrospectively from September 20, 2020 to September 19, 2023.

Provision of Guarantee to a Subsidiary of the Company

On October 8, 2020, Glory Xingye (Beijing) Investment Co., Ltd. (國瑞興業(北京)投資有限公司) (“Glory Xingye Investment”), a wholly-owned subsidiary of us, entered into a facility agreement (the “Facility Agreement”) with Bank of Tianjin Co., Ltd. Beijing Branch (the “Lender”). Pursuant to the Facility Agreement, Glory Xingye Investment agrees to borrow and the Lender agrees to provide a loan of RMB1.5 billion (the “Loan Facility”). In consideration of the provision of the Loan Facility under the Facility Agreement by the Lender, we, Garden Group, a wholly-owned subsidiary of us, and Beijing Ruixin Enterprise Management Co., Ltd. (北京睿欣企業管理有限公司), a wholly-owned subsidiary of the Company, agreed to provide corporate guarantees (the “Corporate Guarantees”), and Mr. Zhang Zhangsun and Ms. Ruan Wenjuan agreed to provide a joint and several guarantee, each in favor of the Lender, so as to guarantee the performance of Glory Xingye Investment’s obligations of up to RMB1.5 billion. The underlying agreements have been signed by the parties on October 8, 2020. The entering into of the agreements in relation to the Loan Facility and the provision of Corporate Guarantees are for the purpose of financing certain projects.

Contracted Sales

For the six months ended June 30, 2020, we achieved total contracted sales of approximately RMB7,478.8 million, contracted sales in terms of GFA amounted to approximately 375,746 sq.m. and contracted ASP of approximately RMB19,904.0 per sq.m.

Leasing of Investment Properties

We selectively retained the ownership of a substantial amount of self-developed commercial properties with strategic value to generate stable and sustainable income. As of June 30, 2020, we had investment properties with a total GFA of 983,960 sq.m. in Beijing Fugui Garden, Beijing Glory City, Beijing Bei Wu Lou, Shenyang Glory City, Shantou Glory City, Eudemonia Palace, Beijing Hademen Center, Shenzhen • Nanshan, Haikou Glory City and Foshan Glory Shengping Commercial Center.

General Information

We are a limited liability company incorporated under the laws of Cayman Islands. In July 2014, we listed our ordinary shares on the Hong Kong Stock Exchange. Our registered office is located on Scotia Centre, 4th Floor, P.O. Box 2804, George Town, Grand Cayman KY1-1112, Cayman Island.

THE OFFERING

The following is a brief summary of the terms of this offering and is qualified in its entirety by the remainder of this offering memorandum. Terms used in this summary and not otherwise defined shall have the meanings given to them in “Description of the Notes.”

| | |
|------------------------------|---|
| Issuer | Guorui Properties Limited (incorporated under the name of “Glory Land Company Limited (國瑞置業有限公司)” in the Cayman Islands and carrying on business in Hong Kong as “Guorui Properties Limited”) (the “ Company ”). |
| Notes Offered | US\$ aggregate principal amount of 14.25% Senior Note due 2024 (the “ Notes ”). |
| Offering Price | 98.00% of the principal amount of the Notes. |
| Original Issue Date | . |
| Maturity Date | . |
| Interest | The Notes bear interest from (and including) at the rate of 14.25% <i>per annum</i> , payable semi-annually in arrears. |
| Interest Payment Dates | and of each year, commencing , 2021. |
| Ranking of the Notes | The Notes are: <ul style="list-style-type: none">• general obligations of the Company;• senior in right of payment to any existing and future obligations of the Company expressly subordinated in right of payment to the Notes;• senior in right of payment to any existing and future obligations of (i) any Pledge Entity or (ii) to which any assets held by any Pledge Entity is subject, in each case that are owed to the Company or any of its Subsidiaries;• at least <i>pari passu</i> in right of payment with all unsubordinated Indebtedness of the Company (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law);• guaranteed by the Subsidiary Guarantors and the JV Subsidiary Guarantors (if any) on a senior basis, subject to the limitations described under the caption “— The Subsidiary Guarantees and the JV Subsidiary Guarantees” in the “Description of the Notes” and in “Risk Factors — Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees, the Collateral and the Personal Guarantees”; |

- guaranteed by the Personal Guarantors subject to the limitations described below under the caption “— Personal Guarantees” and in “Risk Factors — Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees, the Collateral and the Personal Guarantees”;
- effectively subordinated to the existing and future secured obligations (if any) of the Company, the Subsidiary Guarantors and the JV Subsidiary Guarantors, to the extent of the value of the collateral serving as security therefor (other than the Collateral); and
- other than as described above with respect to certain obligations of the Pledge Entities, effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries.

The Company will, and will cause its Subsidiaries to, make any existing and future obligations of any Pledge Entity or to which any assets held by any Pledge Entity is subject that are owed to the Company or any such Subsidiary contractually subordinated in right of payment to the Notes, the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Personal Guarantees.

On the Original Issue Date, subject to the limitations described in “Risk Factors — Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees, the Collateral and the Personal Guarantees,” the Notes will be secured by a pledge of the Collateral as described below under “Description of the Notes — Security” and will:

- be entitled to the benefit of a Lien on the Collateral (subject to any Permitted Liens specified in clause (1) or (30) of the definition of “Permitted Liens”); and
- rank effectively senior in right of payment to unsecured obligations of the Company to the extent of the value of the Collateral (subject to any priority rights of such unsecured obligations pursuant to applicable law).

Subsidiary Guarantees Each of the Subsidiary Guarantors and JV Subsidiary Guarantors (if any) will jointly and severally guarantee the due and punctual payment of the principal of, premium, if any, and interest on, and all other amounts payable under, the Notes.

A Subsidiary Guarantee given by a Subsidiary Guarantor and a JV Subsidiary Guarantee given by a JV Subsidiary Guarantor may be released in certain circumstances. See “Description of the Notes — The Subsidiary Guarantees and JV Subsidiary Guarantees — Release of the Subsidiary Guarantees and JV Subsidiaries Guarantees.”

As of the Original Issue Date of the Notes, the initial Subsidiary Guarantors will only consist of Glory (HK) Investment Limited (國瑞(香港)投資有限公司) (formerly known as Glory Real Estate (HK) Investment Limited (國瑞地產(香港)投資有限公司), All Affluent Holdings Limited, State Wealth Holdings Limited, Well Ample Holdings Limited, All Affluent Holdings (HK) Limited (通裕控股(香港)有限公司), State Wealth Holdings (HK) Limited (國豐控股(香港)有限公司), and Well Ample Holdings (HK) Limited (國益控股(香港)有限公司). The initial Subsidiary Guarantors are holding companies that do not have significant operations. None of the existing Non-Guarantor Subsidiaries will provide a Subsidiary Guarantee or JV Subsidiary Guarantee on the Original Issue Date or at any time in the future. In addition, no future Restricted Subsidiaries, as defined under “Description of the Notes — Definitions,” organized under the laws of the PRC will provide a Subsidiary Guarantee or JV Subsidiary Guarantee at any time in the future.

Any future Restricted Subsidiary (other than (i) Persons organized under the laws of the PRC, (ii) Restricted Subsidiaries designated as New Non-Guarantor Subsidiaries and (iii) Restricted Subsidiaries designated as Unrestricted Subsidiaries) will provide a guarantee of the Notes as soon as practicable after such Person becomes a Restricted Subsidiary.

Ranking of Subsidiary Guarantees ...

The Subsidiary Guarantee of each Subsidiary Guarantor:

- is a general obligation of such Subsidiary Guarantor;
- is effectively subordinated to secured obligations of such Subsidiary Guarantor, to the extent of the value of the collateral serving as security therefor (other than the Collateral, if applicable);
- is senior in right of payment to all future obligations of such Subsidiary Guarantor expressly subordinated in right of payment to such Subsidiary Guarantee;
- is senior in right of payment to any existing and future obligations (i) of any Pledge Entity or (ii) to which any assets held by any Pledge Entity is subject that are owed to the Company or any of its Subsidiaries;
- ranks at least *pari passu* with all unsubordinated Indebtedness of such Subsidiary Guarantor (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law); and
- other than as described above with respect to certain obligations of the Pledge Entities, is effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries, which are Subsidiaries of such Subsidiary Guarantors.

On the Original Issue Date, subject to the limitations described in “Risk Factors — Risks Relating to the Subsidiary Guarantees, JV Subsidiary Guarantees, the Collateral and the Personal Guarantees,” the Subsidiary Guarantees of the Pledgors will be secured by a pledge of the Collateral described below under “Description of the Notes — Security” and will:

- be entitled to the benefit of a Lien on the Collateral (subject to any Permitted Lien specified in clause (1) or (30) of the definition of “Permitted Liens”); and
- rank effectively senior in right of payment to their unsecured obligations to the extent of the value of the Collateral (subject to any priority rights of such unsecured obligations pursuant to applicable law).

See “Risk Factors — Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees, the Collateral and the Personal Guarantees.”

Ranking of JV Subsidiary Guarantees

If any is provided, the JV Subsidiary Guarantee of each JV Subsidiary Guarantor:

- will be a general obligation of such JV Subsidiary Guarantor;
- will be senior in right of payment to any existing and future obligations of any Pledge Entity or to which any assets held by any Pledge Entity is subject that are owed to the Company or any of its Subsidiaries;
- will be enforceable only up to the JV Entitlement Amount;
- will be effectively subordinated to secured obligations of such JV Subsidiary Guarantor, to the extent of the value of the assets serving as security therefor;
- will be limited to the JV Entitlement Amount, and will be senior in right of payment to all future obligations of such JV Subsidiary Guarantor expressly subordinated in right of payment to such JV Subsidiary Guarantee; and
- will be limited to the JV Entitlement Amount, and will rank at least pari passu with all other unsecured, unsubordinated Indebtedness of such JV Subsidiary Guarantor (subject to any priority rights of such unsecured and unsubordinated indebtedness pursuant to applicable law).

The JV Subsidiary Guarantee of each JV Subsidiary Guarantor will not be secured.

| | |
|--------------------------------------|---|
| New Non-Guarantor Subsidiaries | <p>A future Restricted Subsidiary organized outside the PRC need not provide a Subsidiary Guarantee or JV Subsidiary Guarantee if it is so elected by the Company at the time such entity becomes a Restricted Subsidiary; <i>provided</i> that, after giving effect to the Consolidated Assets of such Restricted Subsidiary, the Consolidated Assets of all Restricted Subsidiaries organized outside the PRC that are neither a Subsidiary Guarantor nor a JV Subsidiary Guarantor do not account for more than 15% of the Total Assets of the Company.</p> |
| Security to be Granted | <p>Each of the Pledgors has agreed, for the benefit of the holders of the Notes, to pledge the Collateral on a first-priority basis (subject to certain specified Permitted Liens) on the Original Issue Date in order to secure the obligations of the Company under the Notes and the Indenture and of each such Pledgor under its Subsidiary Guarantee.</p> <p>The initial Pledgors are Glory (HK) Investment Limited and All Affluent Holdings (HK) Limited. The Collateral may be reduced or diluted under certain circumstances, including the issuance of Additional Notes subject to the terms of the Indenture. See “Description of the Notes — Security.”</p> <p>The Company shall, or shall procure each of the Pledgors to, (i) file or cause to be filed with the State Administration for Market Regulation (國家市場監督管理總局) or its competent local counterpart (“SAMR”) the relevant Security Document to which such Pledgor is a party and, in the case of the issuance of any Additional Note, any update (if required) on the application(s) submitted to SAMR in connection with the prior issuance(s) of the Notes (the “SAMR Registration”) and obtain an equity interests pledge creation certificate issued by SAMR or any other documents evidencing the completion of registration or, in the case of the issuance of any Additional Note, update on registration issued by SAMR (the “SAMR Registration Records”) within 30 PRC business days after the Original Issue Date or the issue date of the Additional Notes, as applicable, and (ii) within seven PRC business days after the completion of the SAMR Registration by such Pledgor, provide the Collateral Agent (with a copy to the Holders) with (x) an Officers’ Certificate of the Company confirming the completion of the SAMR Registration; and (y) an original copy of the relevant SAMR Registration Records. Rights of holders of the Notes in the Collateral may be adversely affected by the failure to perfect the security interests and it may be difficult to realize the value of the Collateral. See “Risk Factors — Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees, the Collateral and the Personal Guarantees.”</p> |

The Company will appoint, at its own cost, an appraiser from the list of the Eligible Appraisers to conduct appraisal of the valuation of any and all assets held by each Pledge Entity as of the last day of each fiscal semi-annual period after the Original Issue Date (each, a “**Valuation Date**”) and issue a valuation report (the “**Valuation Report**”) for so long as any Note remains outstanding, with the first appraisal to be conducted on the assets held by each Pledge Entity as of June 30, 2021. For so long as any Note remains outstanding, the Company and the Pledgors shall cause the LTV Ratio not to exceed 80% at any time and on each of April 30 and September 30 immediately following a Valuation Date (the “**Certification Date**”) deliver to the Trustee, with a copy to the Holders, an Officers’ Certificate setting forth the calculation of the LTV Ratio as of such Valuation Date and certifying that the LTV Ratio does not exceed 80%, together with the Valuation Report issued by an Eligible Appraiser with respect to such Valuation Date (such certificate and Valuation Report to be provided at the Company’s own cost), with the first such Officers’ Certificate to be delivered as of September 30, 2021.

If, on any Certification Date, the LTV Ratio as determined in accordance with this paragraph exceeds 80%, the Company shall, as soon as practicable but in any event within 30 days after the Certification Date:

- (A) (i) redeem a portion of the outstanding Notes at a redemption price equal to 101% of the principal amount of the redeemed Notes and accrued and unpaid interest, if any, to (but not including) the redemption date; and/or
 - (ii) pledge or cause to be pledged the Capital Stock of one or more other Subsidiaries of the Company (each, an “**Additional Pledge Entity**”, the direct parent company of such Additional Pledge Entity, the “**Additional Pledgor**”) to secure the obligations of the Company under the Notes and the Indenture and, if applicable, of each such Additional Pledgor under its Subsidiary Guarantee, such that after taking into account of such redemption and/or such Additional Pledge Entities for purposes of calculation the LTV Ratio, the LTV Ratio shall no longer exceed 80%; and
- (B) deliver to the Trustee, with a copy to the Holders, an Officers’ Certificate setting forth the calculation of the LTV Ratio as of relevant Valuation Date, taking into account of the action(s) taken by the Company pursuant to clauses (A)(i) and/or (A)(ii) above, and certifying that the LTV Ratio does not exceed 80%, together with the Valuation Report issued by an Eligible Appraiser with respect to such Valuation Date, which shall, for the avoidance of doubt, include the valuation of any and all assets held by each Additional Pledge Entity if applicable (such certificate and Valuation Report to be provided at the Company’s own cost).

Personal Guarantees Mr. ZHANG Zhongsun and Ms. RUAN Wenjuan (the “Personal Guarantors”), the controlling shareholder of the Company and his spouse, will each provide a personal guarantee to the Notes pursuant to a personal guarantee agreement to be dated as of the Original Issue Date, governed by PRC law, in favor of the Trustee to jointly and severally guarantee the obligations of the Company under the Notes (the “Personal Guarantees”). The Personal Guarantors will use their best efforts to obtain the Regulatory Approvals to the extent required with respect to the Personal Guarantees and shall be fully discharged from their obligations under this clause to obtain the Regulatory Approvals if they do not receive the applicable Regulatory Approvals notwithstanding using best efforts.

See “Risk Factors — Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees, the Collateral and the Personal Guarantees — There is no guarantee that Regulatory Approvals with respect to the Personal Guarantees can be obtained and applicable laws and policies may limit the enforceability of the Personal Guarantees.”

Use of Proceeds We intend to use the net proceeds from this offering of the Notes for the refinancing of the 2019 Notes with the remainder for general corporate purposes.

Optional Redemption At any time prior to _____ the Company may at its option redeem the Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the redeemed Notes plus the Applicable Premium as of, and accrued and unpaid interest, if any, to (but not including) the redemption date.

At any time and from time to time prior to _____, the Company may redeem up to 35% of the aggregate principal amount of the Notes with the Net Cash Proceeds of one or more sales of Common Stock of the Company in an Equity Offering at a redemption price of 114.25% of the principal amount of the Notes redeemed, plus accrued and unpaid interest, if any, to (but not including) the redemption date; provided that at least 65% of the aggregate principal amount of the Notes originally issued on the Original Issue Date remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related Equity Offering.

At any time on and from time to time after the date when no more than 10% of the aggregate principal amount of the Notes originally issued on the Original Issue Date remains outstanding, the Company may at its option redeem the Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the Notes plus accrued and unpaid interest, if any, to (but not including) the redemption date.

The Company will give not less than 30 days’ nor more than 60 days’ notice of any redemption to the Holders and the Trustee.

| | |
|--|--|
| <p>Repurchase of Notes by the Company at the Option of the Holders</p> | <p>Holders of the Notes have the right, at their option, to require the Company to repurchase for cash all of their Notes, or any portion of the principal thereof that is equal to US\$200,000 or an integral multiple of US\$1,000 in excess thereof, on (the date that is 15 months after the Original Issue Date) at the repurchase price equal to 100% of the principal amount of the Notes to be repurchased, plus accrued and unpaid interest to, but excluding, (the date that is 15 months after the Original Issue Date). See “Description of the Notes — Repurchase of Notes by the Company at the Option of the Holders.”</p> |
| <p>Repurchase of Notes Upon an Investor Put Triggering Event</p> | <p>Not later than 30 days following a Change of Control, the Company will make an Offer to Purchase all outstanding Notes at a purchase price equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, to (but not including) the Offer to Purchase Payment Date (as defined in clause (2) of the definition of “Offer to Purchase”). Not later than 30 days following a Delisting/Trading Suspension Put Triggering Event, the Company will make an offer to repurchase all outstanding Notes at a purchase price equal to 101% of their principal amount thereof plus accrued and unpaid interest, if any, to (but not including) the Offer to Purchase Date. See “Description of the Notes—Repurchase of the Notes Upon an Investor Put Triggering Event.”</p> |
| <p>Redemption for Taxation Reasons</p> | <p>Subject to certain exceptions and as more fully described herein, the Notes may be redeemed, at the option of the Company or a Surviving Person with respect to the Company, as a whole but not in part, upon giving not less than 30 days’ nor more than 60 days’ notice to the Holders and upon reasonable notice in advance of such notice to Holders to the Trustee and the Paying Agent (which notice shall be irrevocable), at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid interest (including any Additional Amounts), if any, to the date fixed by the Company or the Surviving Person for redemption, if the Company, a Surviving Person, a Subsidiary Guarantor or a JV Subsidiary Guarantor (if any) would become obligated to pay certain additional amounts as a result of certain changes in specified tax laws. See “Description of the Notes—Redemption for Taxation Reasons.”</p> |
| <p>Covenants</p> | <p>The Notes, the Indenture governing the Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any) will limit the Company’s ability and the ability of its Restricted Subsidiaries to, among other things:</p> <ul style="list-style-type: none"> • incur additional indebtedness and issue disqualified or preferred stock; • declare or pay dividends on the Company’s capital stock or purchase or redeem capital stock; • make investments or other specified restricted payments; • issue or sell capital stock of Restricted Subsidiaries; • guarantee indebtedness of Restricted Subsidiaries; |

- dispose of the Collateral and the Properties;
- reduce the capital contribution or distribute dividends with respect to the Collateral
- sell assets;
- create liens;
- enter into sale and leaseback transactions;
- enter into agreements that restrict the Restricted Subsidiaries' ability to pay dividends, transfer assets or make intercompany loans;
- enter into transactions with shareholders or affiliates; and
- effect a consolidation or merger.

These covenants are subject to a number of important qualifications and exceptions described in "Description of the Notes—Certain Covenants."

Transfer Restrictions The Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any) will not be registered under the Securities Act or under any state securities laws of the United States and will be subject to customary restrictions on transfer and resale. See "Transfer Restrictions."

Form, Denomination and Registration The Notes will be issued only in fully registered form, without coupons, in minimum denominations of US\$200,000 and integral multiples of US\$1,000 in excess thereof and will be initially represented by one or more global notes deposited with a common depository and registered in the name of the common depository or its nominee. Beneficial interests in the Global Certificate will be shown on, and transfer thereof will be effected only through the records maintained by Euroclear and Clearstream and their participants.

Book-Entry Only The Notes will be issued in book-entry form through the facilities of Euroclear and Clearstream for the accounts of its participants. For a description of certain factors relating to clearance and settlement, see "Description of the Notes—Book-Entry; Delivery and Form."

Delivery of the Notes The Company expects to make delivery of the Notes against payment in immediately available funds on or about _____, 2021, which the Company expects will be the _____ business days following the date of the pricing of the Notes referred to as "T+ _____." You should note that initial trading of the Notes may be affected by the "T+ _____" settlement. See "Plan of Distribution."

Trustee Citicorp International Limited

| | | |
|--|--|---------------------------------|
| Paying Agent, Transfer Agent and Registrar | Citibank, N.A., London Branch | |
| Collateral Agent..... | Citicorp International Limited | |
| Listing and Trading | <p>Application will be made to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Notes by way of debt issues to Professional Investors only as described in this offering memorandum. The Notes will be traded on the Hong Kong Stock Exchange subject to a minimum board lot size requirement of the equivalent of HK\$500,000 for so long as the Notes are listed on the Hong Kong Stock Exchange.</p> <p>Application will also be made for the listing and quotation of the Notes on the SGX-ST. The Notes will be traded on the SGX-ST in a minimum board lot size of US\$200,000 for so long as any of the Notes are listed on the SGX-ST and the rules of the SGX-ST so require.</p> | |
| Rating | <p>The Notes are expected to be rated B- by Fitch Ratings Ltd.. 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. We cannot assure investors that such rating will not be adversely revised or withdrawn either before or after delivery of the Notes.</p> | |
| Security Codes..... | ISIN XS2280222410 | Common Code 228022241 |
| Governing Law | <p>The Notes, the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Indenture are governed by and construed in accordance with the laws of the State of New York.</p> <p>The Share Charges and the Personal Guarantees are governed by and construed in accordance with the laws of the PRC.</p> | |
| Concurrent Exchange Offer and Consent Solicitation | <p>We are concurrently conducting (i) a Concurrent Exchange Offer to exchange our outstanding 2019 Notes, and (ii) soliciting consents from Eligible Holders (as defined in the Exchange Offer and Consent Solicitation Memorandum) of the outstanding 2019 Notes to make certain amendments to the 2019 Notes Indenture, for the Exchange Notes and other exchange and consent consideration. Any Exchange Notes to be issued in the Concurrent Exchange Offer will have the same terms as and form a single class with the Notes issued in this offering.</p> | |
| Risk Factors | <p>For a discussion of certain factors that should be considered in evaluating an investment in the Notes, see “Risk Factors.”</p> | |

SUMMARY CONSOLIDATED FINANCIAL AND OTHER DATA

The following table presents our summary financial and other data. The summary consolidated statement of profit or loss and other comprehensive income data for the years ended December 31, 2017, 2018 and 2019 and the summary consolidated statement of financial position data as of December 31, 2017, 2018 and 2019 set forth below (except for EBITDA data) have been derived from our audited consolidated financial statements for such years and as of such dates, as audited by Deloitte Touche Tohmatsu, Hong Kong Certified Public Accountants, and included elsewhere in this offering memorandum. The summary condensed consolidated statement of profit or loss and other comprehensive income data for the six months ended June 30, 2019 and 2020 and the summary condensed consolidated statement of financial position data as of June 30, 2020 set forth below (except for EBITDA data) have been derived from our unaudited condensed consolidated interim financial statements for the six months ended June 30, 2020, as reviewed by Deloitte Touche Tohmatsu, Hong Kong Certified Public Accountants, included elsewhere in this offering memorandum. Our financial statements have been prepared and presented in accordance with the IFRS, which differ in certain respects from generally accepted accounting principles in other jurisdictions. The summary financial data below should be read in conjunction with the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and the notes to those statements included elsewhere in this offering memorandum.

Summary Consolidated Statement of Profit or Loss and Other Comprehensive Income Data

| | Year ended December 31, | | | | Six months ended June 30, | | |
|---|------------------------------------|------------------|------------------|----------------|---------------------------|--------------------|---------------|
| | 2017 | 2018 | 2019 | 2019 | 2019 | 2020 | 2020 |
| | RMB (audited) | RMB (audited) | RMB (audited) | US\$ | RMB (unaudited) | RMB (unaudited) | US\$ |
| | (in thousands, except percentages) | | | | | | |
| Revenue | 6,787,415 | 6,612,485 | 8,093,176 | 1,145,515 | 3,774,912 | 3,322,365 | 470,250 |
| Cost of sales and services | (3,618,543) | (4,013,283) | (5,954,455) | (842,798) | (2,700,246) | (2,450,965) | (346,912) |
| Gross profit | 3,168,872 | 2,599,202 | 2,138,721 | 302,716 | 1,074,666 | 871,400 | 123,339 |
| Other gains and losses | 161,185 | 67,364 | 4,856 | 687 | (17,993) | (43,687) | (6,184) |
| Impairment losses under expected credit loss model, net of reversal | — | — | (27,213) | (3,852) | — | (5,178) | (733) |
| Other income | 88,241 | 159,267 | 176,326 | 24,957 | 76,110 | 111,855 | 15,832 |
| Change in fair value of investment properties | 955,743 | 907,791 | 1,061,366 | 150,227 | 531,751 | 238,363 | 33,738 |
| Share of results of joint ventures | (936) | (11,939) | (19,786) | (2,801) | (5,992) | (8,088) | (1,145) |
| Share of results of associates | (6,014) | (10,905) | (565) | (80) | (5,364) | (1,247) | (177) |
| Distribution and selling expenses | (194,915) | (206,799) | (305,948) | (43,304) | (164,006) | (128,337) | (18,165) |
| Administrative expenses | (360,684) | (507,815) | (556,802) | (78,810) | (268,730) | (243,894) | (34,521) |
| Other expenses | (45,676) | (53,252) | (20,115) | (2,847) | (21,977) | (5,666) | (802) |
| Finance costs | (198,683) | (245,446) | (404,677) | (57,278) | (201,971) | (220,466) | (31,205) |
| Profit before tax | 3,567,133 | 2,697,468 | 2,046,163 | 289,616 | 996,494 | 565,055 | 79,978 |
| Income tax expenses | (1,527,622) | (1,128,237) | (826,550) | (116,991) | (426,647) | (284,032) | (40,202) |
| Profit for the year/period | <u>2,039,511</u> | <u>1,569,231</u> | <u>1,219,613</u> | <u>172,625</u> | <u>569,847</u> | <u>281,023</u> | <u>39,776</u> |
| Other comprehensive income (expense) | | | | | | | |
| Items that will not be reclassified to profit or loss: | | | | | | | |
| Gain on revaluation of properties | 324,949 | — | — | — | — | — | — |

| | Year ended December 31, | | | | Six months ended June 30, | | |
|--|------------------------------------|------------------|------------------|----------------|---------------------------|--------------------|---------------|
| | 2017 | 2018 | 2019 | 2019 | 2019 | 2020 | 2020 |
| | RMB (audited) | RMB (audited) | RMB (audited) | US\$ | RMB (unaudited) | RMB (unaudited) | US\$ |
| | (in thousands, except percentages) | | | | | | |
| Changes in fair value of equity instruments at fair value through other comprehensive income | — | (9,593) | 3,893 | 551 | 3,893 | — | — |
| Income tax relating to items that will not be reclassified to profit or loss | (81,237) | 2,398 | (973) | (138) | (973) | — | — |
| Other comprehensive income (expense) for the year/period | 243,712 | (7,195) | 2,920 | 413 | 2,920 | — | — |
| Total comprehensive income for the year/period | 2,283,223 | 1,562,036 | 1,222,533 | 173,038 | 572,767 | 281,023 | 39,776 |
| Profit for the year/period attributable to: | | | | | | | |
| Owners of the Company | 1,749,841 | 1,008,784 | 859,764 | 121,692 | 428,576 | 71,306 | 10,093 |
| Non-controlling interests | 289,670 | 560,447 | 359,849 | 50,933 | 141,271 | 209,717 | 29,684 |
| | <u>2,039,511</u> | <u>1,569,231</u> | <u>1,219,613</u> | <u>172,625</u> | <u>569,847</u> | <u>281,023</u> | <u>39,776</u> |
| Total comprehensive income for the year/period attributable to: | | | | | | | |
| Owners of the Company | 1,944,811 | 1,002,237 | 862,421 | 122,068 | 431,233 | 71,306 | 10,093 |
| Non-controlling interests | 338,412 | 559,799 | 360,112 | 50,971 | 141,534 | 209,717 | 29,684 |
| | <u>2,283,223</u> | <u>1,562,036</u> | <u>1,222,533</u> | <u>173,038</u> | <u>572,767</u> | <u>281,023</u> | <u>39,776</u> |
| Other Financial Data (unaudited): | | | | | | | |
| EBITDA ⁽¹⁾ | 2,646,480 | 1,958,853 | 1,361,342 | 192,686 | 683,561 | 541,303 | 76,617 |
| EBITDA margin ⁽²⁾ | 39.0% | 29.6% | 16.8% | 16.8% | 18.1% | 16.3% | 16.3% |

Notes:

- (1) EBITDA for any period consists of gross profit less selling and administrative expenses, plus depreciation and amortization. EBITDA is not a standard measure under IFRS. 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, net income or any other measure of financial performance or as an indicator of our operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. EBITDA does not account for taxes, interest expense or other non-operating cash expenses. In evaluating EBITDA, we believe that investors should consider, among other things, the components of EBITDA such as sales and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. We have included EBITDA because we believe it is a useful supplement to cash flow data as a measure of our performance and our ability to generate cash flow from operations to cover debt service and taxes. EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare our EBITDA to EBITDA presented by other companies because not all companies use the same definition. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Non-GAAP Financial Measures" for a reconciliation of our profit for the year under IFRS to our definition of EBITDA. Investors should also note that EBITDA as presented herein may be calculated differently from Consolidated EBITDA as defined and used in the Indenture governing the Notes. See "Description of the Notes — Definitions" for a description of the manner in which Consolidated EBITDA is defined for purposes of the Indenture governing the Notes.
- (2) EBITDA margin is calculated by dividing EBITDA by revenue.

Summary Consolidated Statement of Financial Position Data

| | As of December 31, | | | | As of June 30, | |
|---|--------------------|-------------------|-------------------|------------------|--------------------|------------------|
| | 2017 | 2018 | 2019 | 2019 | 2020 | 2020 |
| | RMB (audited) | RMB (audited) | RMB (audited) | US\$ | RMB (unaudited) | US\$ |
| | (in thousands) | | | | | |
| Non-current assets | | | | | | |
| Investment properties | 18,308,269 | 19,545,072 | 21,150,000 | 2,993,588 | 20,996,000 | 2,971,791 |
| Property, plant and equipment | 850,258 | 1,687,653 | 1,885,865 | 266,927 | 1,985,294 | 281,000 |
| Right-of-use assets | — | — | 279,824 | 39,607 | 274,205 | 38,811 |
| Other non-current assets | 1,053,778 | 1,409,257 | 1,566,745 | 221,758 | 1,572,511 | 222,575 |
| Interest in joint ventures | 9,064 | 24,375 | 30,089 | 4,259 | 25,371 | 3,591 |
| Interest in associates | 269,246 | 565 | 5,000 | 708 | 7,800 | 1,104 |
| Available-for-sale investments | 165,192 | — | — | — | — | — |
| Equity instruments at fair value through other comprehensive income | — | 220,307 | 32,400 | 4,586 | 32,400 | 4,586 |
| Prepaid lease payments | 281,438 | 275,466 | — | — | — | — |
| Deposit paid for acquisition of a subsidiary | — | — | 169,620 | 24,008 | 210,770 | 29,833 |
| Deposit paid for acquisition of property, plant and equipment | 120,000 | — | — | — | — | — |
| Deferred tax assets | 404,235 | 510,513 | 536,185 | 75,892 | 714,418 | 101,119 |
| Amounts due from related parties | — | — | — | — | 2,033,669 | 287,847 |
| Restricted bank deposits | 105,720 | 462,980 | 719,615 | 101,855 | 475,158 | 67,254 |
| Value added tax and taxation recoverable | 1,422,585 | 1,680,675 | 1,666,559 | 235,886 | 1,837,909 | 260,139 |
| | <u>22,989,785</u> | <u>25,816,863</u> | <u>28,041,902</u> | <u>3,969,074</u> | <u>30,165,505</u> | <u>4,269,650</u> |
| Current assets | | | | | | |
| Inventories | 61 | 67 | 61 | 9 | 95 | 13 |
| Deposits paid for land acquisition | 605,010 | 830,301 | 369,301 | 52,271 | 388,296 | 54,960 |
| Properties under development for sale | 23,626,222 | 36,371,398 | 37,333,243 | 5,284,178 | 38,849,863 | 5,498,841 |
| Properties held for sale | 3,408,156 | 4,372,328 | 5,361,690 | 758,898 | 4,820,050 | 682,234 |
| Trade and other receivables, deposits and prepayments | 1,082,946 | 2,296,480 | 2,811,721 | 397,973 | 2,458,673 | 348,003 |
| Contract assets | — | 1,223,570 | 1,442,134 | 204,121 | 1,551,003 | 219,530 |
| Contract cost | — | 36,321 | 76,919 | 10,887 | 90,509 | 12,811 |
| Amounts due from customers for contract work | 1,191,139 | — | — | — | — | — |
| Value added tax and taxation recoverable | 500,477 | 634,706 | 791,981 | 112,098 | 792,721 | 112,202 |
| Amounts due from related parties | 2,928,197 | 2,588,873 | 4,440,856 | 628,562 | 2,835,109 | 401,284 |
| Financial assets at fair value through profit or loss | 97 | — | — | — | — | — |
| Restricted bank deposits | 620,761 | 479,151 | 959,615 | 135,825 | 623,067 | 88,190 |
| Cash and bank balances | 1,591,506 | 1,030,143 | 536,926 | 75,997 | 1,855,676 | 262,654 |
| | <u>35,554,572</u> | <u>49,863,338</u> | <u>54,124,447</u> | <u>7,660,818</u> | <u>54,265,062</u> | <u>7,680,721</u> |
| Total assets classified as for sale | — | — | — | — | 631,360 | 89,363 |
| | <u>35,554,572</u> | <u>49,863,338</u> | <u>54,124,447</u> | <u>7,660,818</u> | <u>54,896,422</u> | <u>7,770,084</u> |

| | As of December 31, | | | | As of June 30, | |
|---|--------------------|-------------------|-------------------|------------------|--------------------|------------------|
| | 2017 | 2018 | 2019 | 2019 | 2020 | 2020 |
| | RMB (audited) | RMB (audited) | RMB (audited) | US\$ | RMB (unaudited) | US\$ |
| | (in thousands) | | | | | |
| Current liabilities | | | | | | |
| Trade and other payables | 5,585,713 | 6,757,015 | 6,439,342 | 911,430 | 6,360,921 | 900,330 |
| Lease liabilities | — | — | 1,600 | 227 | 1,666 | 236 |
| Deposits received from sale of properties | 3,308,339 | — | — | — | — | — |
| Contract liabilities | — | 11,208,252 | 17,332,702 | 2,453,285 | 19,144,946 | 2,709,791 |
| Amounts due to related parties . . . | 893,229 | 4,265,166 | 5,322,007 | 753,281 | 5,671,096 | 802,692 |
| Tax payable | 2,492,186 | 2,874,075 | 2,948,144 | 417,283 | 3,125,305 | 442,359 |
| Bank and trust borrowings | 11,625,399 | 9,037,963 | 6,317,710 | 894,214 | 6,048,341 | 856,087 |
| Corporate bonds | 2,992,645 | 998,765 | 65,787 | 9,312 | 88,723 | 12,558 |
| Senior Notes | — | 3,768,364 | 1,734,974 | 245,570 | 1,139,760 | 161,323 |
| | <u>26,897,511</u> | <u>38,909,600</u> | <u>40,162,266</u> | <u>5,684,600</u> | <u>41,580,758</u> | <u>5,885,374</u> |
| Liabilities associated with assets classified as held for sale | — | — | — | — | 482,180 | 68,248 |
| | <u>26,897,511</u> | <u>38,909,600</u> | <u>40,162,266</u> | <u>5,684,600</u> | <u>42,062,938</u> | <u>5,953,623</u> |
| Net current assets | <u>8,657,061</u> | <u>10,953,738</u> | <u>13,962,181</u> | <u>1,976,219</u> | <u>12,833,484</u> | <u>1,816,462</u> |
| Total assets less current liabilities . . | <u>31,646,846</u> | <u>36,770,601</u> | <u>42,004,083</u> | <u>5,945,292</u> | <u>42,998,989</u> | <u>6,086,112</u> |
| Non-current liabilities | | | | | | |
| Rental deposits received | 89,393 | 106,312 | 122,063 | 17,277 | 118,062 | 16,711 |
| Lease liabilities | — | — | 2,974 | 421 | 2,175 | 308 |
| Bank and trust borrowings | 12,601,665 | 14,261,021 | 15,748,894 | 2,229,111 | 17,026,083 | 2,409,886 |
| Corporate bonds | 997,006 | 54,670 | 500,000 | 70,770 | 500,000 | 70,770 |
| Senior notes | 1,940,948 | 677,419 | 3,076,320 | 435,425 | 2,831,146 | 400,723 |
| Deferred tax liabilities | 2,425,425 | 3,840,352 | 3,925,302 | 555,590 | 3,788,997 | 536,298 |
| | <u>18,054,437</u> | <u>18,939,774</u> | <u>23,375,553</u> | <u>3,308,595</u> | <u>24,266,463</u> | <u>3,434,695</u> |
| Net assets | <u>13,592,409</u> | <u>17,830,827</u> | <u>18,628,530</u> | <u>2,636,697</u> | <u>18,732,526</u> | <u>2,651,417</u> |
| Capital and reserves | | | | | | |
| Share capital | 3,519 | 3,520 | 3,520 | 498 | 3,520 | 498 |
| Reserves | <u>10,898,692</u> | <u>11,899,088</u> | <u>12,541,509</u> | <u>1,775,135</u> | <u>12,462,815</u> | <u>1,763,997</u> |
| Equity attributable to owners of the Company | 10,902,211 | 11,902,608 | 12,545,029 | 1,775,634 | 12,466,335 | 1,764,495 |
| Non-controlling interests | 2,690,198 | 5,928,219 | 6,083,501 | 861,064 | 6,266,191 | 886,922 |
| Total equity | <u>13,592,409</u> | <u>17,830,827</u> | <u>18,628,530</u> | <u>2,636,698</u> | <u>18,732,526</u> | <u>2,651,417</u> |

RISK FACTORS

An investment in the Notes is subject to significant risks. You should carefully consider all of the information in this offering memorandum and, in particular, the risks and uncertainties described below before deciding to invest in the Notes. The risks and uncertainties described below may not be the only ones that we face. Additional risks and uncertainties that we are not aware of or that we currently believe are immaterial could be material. If any of these, including the possible events described below, occur, our business, financial condition or results of operations could be materially and adversely affected. In such case, we may not be able to satisfy our obligations under the Notes, and you could lose all or part of your investment.

RISKS RELATING TO OUR BUSINESS

Our business and operations are dependent on economic conditions in the PRC, particularly the performance of the property market in the cities in which we develop our property projects and manage the properties we have developed

We develop and sell properties in cities throughout the PRC. As of June 30, 2020, our property portfolio consisted of 29 projects completed located in Beijing, Haikou, Wanning, Shantou, Foshan, Shenyang, Zhengzhou, Langfang and Chongqing. As such, our business is heavily affected by the performance of the PRC economy, particularly that of the property market in the cities where we operate. From 2014 to 2019, as a result of changing policies and market cycles, the annual growth rates of real estate investment in the cities where we have property projects were volatile. See the section entitled “Industry Overview” of this offering memorandum for more details.

The property market in the PRC is affected by many factors and future demand for properties in the PRC is uncertain. Any changes in the PRC’s social, political, economic and legal environment, changes in the PRC government’s fiscal and monetary policies, the lack of a mature and active secondary market for residential and commercial properties in the PRC, the limited availability of mortgage loans to individuals in the PRC and the fluctuation of consumer confidence and consumer spending, all of which are beyond our control. Any oversupply, economic downturn or austerity measures imposed by the PRC government may result in a decline in property sales or property prices nationally or regionally, which may have a material adverse effect on our business, financial condition and results of operations.

Our business and operations are subject to extensive government policies and regulations and, in particular, we are susceptible to changes in policies related to the PRC property development industry and in regions in which we operate

Our business is subject to extensive governmental regulations and, in particular, we are susceptible to policy changes in the PRC property development industry. As with other PRC property developers, we must comply with various PRC laws and regulations, including rules stipulated by local authorities implementing PRC laws and regulations. In particular, the PRC government exerts considerable direct and indirect influence on the development of the property development industry by imposing policies and other economic measures, such as exercising control over the supply of land for property development and regulating foreign exchange, property financing, taxation and foreign investment. Through these policies and measures, the PRC government may restrict or reduce land available for property development, raise benchmark interest rates of commercial banks, raise reserve requirements or place other limitations on the ability of commercial banks to issue loans to property developers and property purchasers, impose additional taxes and levies on property sales and restrict foreign investment in the PRC property development industry.

Demand for residential properties in the PRC has been growing rapidly over the past few years and there have been concerns that the PRC property market has been overheating and may become a property “bubble.” In response, the PRC government has taken measures to slow down the property market and

inflation of property prices, as well as to dampen property speculation. These policies may limit our ability to obtain financing, acquire land for future development, sell our properties at profit or generate sufficient operating cash flows from contracted sales. See “— Risks Relating to the Real Estate Industry in the PRC” for more risks and uncertainties relating to the extensive PRC regulations.

We cannot assure you that the PRC government will not adopt additional and more stringent industry policies, regulations and measures in the future. It is also impossible to ascertain the extent of the impact of these measures or to accurately estimate our sales volume and revenue had the measures been introduced. If we fail to adapt our operations to new government policies, regulations or measures that may come into effect from time to time with respect to the property development industry, or if our marketing and pricing strategies are ineffective in promoting our contracted sales, such changes may dampen our contracted sales and cause us to lower our average selling prices and/or incur additional costs, in which case our business prospects, results of operations and financial condition may be materially and adversely affected.

Some of our operating subsidiaries in the PRC have not received waivers from the restrictions that prohibit or limit these subsidiaries from paying dividends to their parent company or other group entities

A number of the Company’s subsidiaries that operate in the PRC are subject to financing arrangements that provide the creditors the right to require the subsidiaries to make payments to the creditors before paying dividends to their parent companies or other group entities until the arrangements are fully repaid. See “Description of Other Material Indebtedness — PRC Bank Loan Agreement.” As a result, the Company’s ability to access cash generated by these subsidiaries may be limited if the creditors enforce their rights. Unless the subsidiaries are able to service such financings, repay such financings or otherwise cause the creditors to waive such rights, the Company’s ability to fund its liquidity needs, including interest and principal payments due under the Notes, may be limited. We have received such waivers from the creditors of certain subsidiaries. However, as of the date of this offering memorandum, some of such subsidiaries have not obtained waivers of such rights from their respective creditors. In addition, as long as the payment of dividends from such subsidiaries are subject to restrictions, the income generated by such subsidiaries will not contribute to the Company’s Consolidated Net Income (as defined under “Description of the Notes — Definitions”). As a result, the Company may not be able to incur debt under the first paragraph of the “Limitation on Indebtedness and Preferred Stock” covenant in the “Description of the Notes” section, which will further restrict the Company’s ability to operate within the confines of certain other covenants in the “Description of the Notes” and will force the Company to operate in a more constrained manner. See “— Our Company is a holding company that relies on payment from our subsidiaries for funding, and any limitation on the ability of our PRC subsidiaries to pay dividends or repay intercompany loans or advances to us may have a material adverse effect on our ability to conduct our business.”

Our financial results included changes in fair value of investment properties and our results may fluctuate due to such changes in the fair value of our investment properties

We intend to strategically retain high quality commercial properties as investment properties for generating recurring rental income. In general, investment in real properties is relatively illiquid. We appointed qualified property valuers to reassess the fair value of our investment properties at every reported statement of financial position date based upon a direct comparison approach and a direct capitalization approach. See the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of this offering memorandum for the details of changes in fair value of investment properties. According to IAS 40, the International Accounting Standard for investment properties issued by the IASB, investment properties may be recognized by using either the fair value model or the cost model. Our directors have selected the fair value model because they are of the view that periodic fair value adjustments in accordance with the then prevailing market conditions, irrespective of whether such market trend moves upwards or downwards, should be recorded so that our financial statements present a more updated picture of the fair value of our investment properties.

However, any upward change in the fair value, which reflects unrealized capital gain of our investment properties at the relevant statement of financial position dates and not profit generated from day-to-day rentals of our investment properties, largely depends on the prevailing property markets and does not generate cash inflow to us until such investment properties are disposed of. We cannot assure you that we will be able to sell such investment properties at prices or on terms satisfactory to us. Moreover, property values are subject to market fluctuation and there can be no assurance that we will continue to record upward change in the fair value of investment properties in the future. Should there be any material and downward change in the fair value of our investment properties in the future, our results of operations may be materially and adversely affected.

We had negative net operating cash flow for the year ended December 31, 2017. If we are unable to meet our payment obligations, our business, financial condition and results of operations may be materially and adversely affected

For the year ended December 31, 2017, we recorded negative net cash flow from operating activities of RMB3,240.4 million. Our negative net operating cash flow was principally attributable to a parcel of land in Yinghai Town, Daxing District, Beijing in 2017. See the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Cash Flows” in this offering memorandum. We cannot assure you that we will not experience negative net operating cash flow in the future. Negative net operating cash flow requires us to obtain sufficient external financing to meet our financial needs and obligations. If we are unable to do so, we will default on our payment obligations and may not be able to develop our projects as planned. As a result, our business, financial condition and results of operations may be materially and adversely affected.

Our cash balance may not always be able to cover our short term indebtedness due within one year

As of June 30, 2020, our cash and bank balances was RMB1,855.7 million (US\$262.7 million). This amount is subject to fluctuation, depending on a number of factors, including but limited to our requirements to repay debt and operating incomes and expenses. We have a substantial amount of indebtedness (see the section entitled “Risk Factors — Risks Relating to the Notes — We are highly leveraged and may incur substantial additional indebtedness in the future, which could adversely affect our financial health and our ability to generate sufficient cash to satisfy our outstanding and future debt obligations” in this offering memorandum) and a large portion of such indebtedness is short term indebtedness due within one year. Although the proceeds of this offering will be used to refinance the 2019 Notes with the remainder for general corporate purposes, we cannot assure you our cash and cash equivalents will be sufficient to repay our outstanding indebtedness. If we are unable to do so, we may have insufficient liquidity or default on our payment obligations. As a result, our business, financial condition and results of operations may be materially and adversely affected.

We face risks associated with the use of debt to fund developments and working capital, including refinancing risk

We rely on debt financing, including bank and other borrowings secured by buildings, investment properties, properties under development and rental properties to finance our development activities and for general working capital purposes. We are subject to the risks normally associated with debt financing. 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. If we are unable to obtain or refinance our debt, our business, prospects, cash flows, financial condition and results of operations could be adversely affected.

We may not always be able to acquire land reserves that are suitable for development

We derive the majority of our revenue from the sale of properties that we have developed. This revenue stream depends on the completion of, and our ability to sell, our property developments. To have a steady stream of developed properties available for sale and a continuous growth in the long term, we need to replenish and increase our land reserves that are suitable for development and at a commercially acceptable cost. Our ability to identify and acquire suitable development sites is subject to a number of factors, some of which are beyond our control and there can be no assurance that we can identify and undertake suitable future primary land development projects.

The PRC government controls the supply of land in the PRC and regulates the transfer of land use rights in the secondary market. As a result, the policies of the PRC government have a direct impact on our ability to acquire the land use rights we seek and could increase our costs of acquisition. In recent years, the PRC central and local governments have also implemented various measures to regulate the means by which property developers obtain land for property development and the manner in which land may be developed. The PRC government also controls land supply through zoning, land usage regulations and other measures. All these measures further intensify the competition for land in the PRC among property developers. As the PRC economy continues to grow and demand for property remains relatively strong, we expect competition among developers for land supply to intensify. If we fail to acquire sufficient land reserves suitable for development in a timely manner and at acceptable prices, our prospects and competitive position may be adversely affected and our business strategies, growth potential and performance may be materially and adversely affected.

We may not be able to acquire relevant land use rights of land parcels, of which the primary land development has been completed by us

Apart from engaging in our property development projects, we also actively undertake primary land development projects as a strategic business in order to access potentially available land reserves. See the sections entitled “Business — Primary Land Development” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Key Factors Affecting Our Performance” in this offering memorandum. There can be no assurance that we will eventually be able to acquire the relevant land use rights of land parcels, of which the primary land development has been completed by us. If we fail to obtain or experience a material delay in obtaining the land use rights, there may be a material adverse effect on our business, results of operation and financial condition. Even if the local government grants such land to us, any increase in the compensation we are required to pay will increase our land acquisition costs, which could materially and adversely affect our financial condition and results of operations. Dissenting owners and residents may also refuse to relocate. Any administrative process or resistance or refusal to relocate may delay our future project development schedules. Any occurrence of the above events may result in increases in our future development costs, which can materially and adversely affect our cash flows, financial condition and results of operations.

We may not have sufficient cash flow or financing to fund land acquisitions or property developments, and such capital resources may not be available on commercially reasonable terms, or at all

Property development is capital intensive. We finance our property projects primarily through a combination of pre-sale and sale proceeds, borrowings from financial institutions and internal funds. We may also access the capital markets to raise further financing. Our ability to obtain adequate financing, or financing on satisfactory or commercially acceptable terms, for land acquisition and property development is dependent on a number of factors that are beyond our control, such as general economic conditions, performance and outlook of the property development industry in the PRC, credit availability from financial institutions, as well as monetary policies and PRC laws and regulations relating to the property sector.

Pre-sale and sale proceeds depend on the property development progress of our various projects and phases. As permitted under the PRC laws and regulations, we are allowed to develop our projects in phases, and to apply for pre-sale permit for such phase when we fulfill certain conditions. Changes in PRC laws and regulations with respect to pre-sale may materially and adversely affect our financing ability. See “— Risks Relating to the Real Estate Industry in the PRC — Changes in PRC laws and regulations with respect to pre-sale may materially and adversely affect our business performance.”

We cannot assure you that the PRC government will not limit our access to capital, our flexibility and our ability to use bank loans or other forms of financing to finance our property development. We cannot assure you that we will be able to secure adequate financing to fund our land acquisitions (including any unpaid land premium for past acquisitions), to finance our project construction or to renew our existing credit facilities prior to their expiration. Our failure to do so may materially and adversely affect our business, financial condition and results of operations.

Our total interest expenses for our borrowings are subject to changes in interest rates

We rely on and expect to continue to rely on bank and third-party loans to finance a substantial part of our project developments. Accordingly, changes in interest rates have affected and will continue to affect our financing costs. As our bank loans are principally denominated in Renminbi, the interest rates on our loans are primarily affected by the benchmark interest rates set by the PBOC, which have fluctuated significantly in recent years.

For the years ended December 31, 2017, 2018 and 2019 and for the six months ended June 30, 2020, the effective interest rate of our variable rate borrowings ranged from 2.58% to 6.50%, 4.75% to 8.50%, 4.75% to 10.00% and 4.75% to 10.00%, respectively, and the effective interest rate of our fixed rate borrowings ranged from 5.90% to 8.75%, 4.75% to 12.00%, 4.75% to 13.00% and 4.75% to 13.65%, respectively. Bank borrowings are one of the most important sources of funding for our property developments. As of December 31, 2017, 2018, 2019 and June 30, 2020, bank borrowings (excluding corporate bonds and senior notes) accounted for 80.6%, 60.0%, 71.3% and 82.9%, respectively, of our bank and other borrowings. The increase in the effective interest rate on our bank borrowings was primarily due to an increase in the PBOC benchmark rates and the tightened credit policies imposed by banks towards PRC property developers.

We cannot assure you that the PBOC will not raise lending rates further or otherwise discourage bank lending. Future increases in the PBOC benchmark interest rates may lead to higher lending rates, which may increase our financing costs and thereby materially and adversely affect our business, financial condition and results of operations.

Increases in interest rates may materially impact our results of operations

Some of our corporate bonds are subject to interest rate adjustment. We currently have not entered into any swap or interest rate hedging transactions in connection with these corporate bonds, although we may decide to engage in such transactions in the future. Unless we fully hedges our interest rate exposure, we will be exposed to interest rate risk resulting from fluctuations in the relevant reference rates. Any such increase in interest expense may materially and adversely affect our business, financial condition and results of operations. Furthermore, if we decide to enter into agreements to hedge our interest rate risk, there can be no assurance that we will be able to do so on commercially reasonable terms or that these agreements, if entered into, will protect us fully against our interest rate risk.

We may fail to fulfill our obligations under trust financing arrangements

From time to time we enter into financing arrangements with certain trust financing companies, which act as trustees of the respective trust funds, to finance our property development projects. If we default on our repayment obligation or otherwise breach the trust financing agreements, we may be subject to litigation that may damage our reputation and make it difficult for us to raise additional funds

through trust financing at reasonable cost, if at all. In addition, under certain trust financing arrangements, we pledged the equity interest held by us in, and/or land use rights or other assets held by, our relevant PRC subsidiaries, such as Langfang Guoxing, in favor of the trust financing companies, or we transferred a minority equity interest in the relevant PRC subsidiaries and pledged the remaining equity interests held by us in the relevant PRC subsidiaries and/or our other assets to the trust financing companies. Any default of such trust financing arrangements may prevent us from redeeming or repurchasing the pledged equity interests in our project companies and other pledged assets from the relevant trust financing companies. Any of the foregoing occurrences may adversely affect our business, financial condition and results of our operations.

The CBRC and/or other agencies of the PRC government may tighten the regulations relating to trust loans provided to the real estate industry in the PRC, which may affect our ability to obtain trust loans

We entered into several trust financing arrangements in the past and the total outstanding amount of our borrowings from trust financing arrangements accounted for 2.0% of our total bank and other borrowings as of June 30, 2020. As of December 31, 2017, 2018, 2019 and June 30, 2020, our outstanding amount from trust financing arrangements were RMB4,710.0 million, RMB8,292.1 million, RMB4,400.2 million (US\$622.8 million) and RMB460.7 million (US\$65.2 million), respectively. While drawdowns on bank loans usually depend on actual construction progress, drawdowns on trust financings may be made in full in one or multiple installments as agreed with the relevant trust companies. Trust financing companies do not usually link their interest rates to the PBOC benchmark interest rates. They typically charge rates higher than those charged by commercial banks. See “Description of Other Material Indebtedness — Trust Financings” in this offering memorandum for more details. Operation of the trust financing companies in the PRC is primarily regulated by the CBRC pursuant to the “Rules Governing Trust Financing Companies” (《信託公司管理辦法》), which became effective on March 1, 2007. Trust financing companies are therefore under the supervision and monitoring of the CBRC and must comply with all notices and regulations promulgated by the CBRC.

We cannot assure you that the PRC government will not implement additional or more stringent measures to limit the amount that trust financing companies can make available to the PRC real estate industry. If this were to happen, our ability to obtain trust loans may be materially and adversely affected.

We are subject to certain restrictive covenants and risks normally associated with borrowings which may limit or otherwise materially and adversely affect our business, financial condition and results of operations

We are subject to certain restrictive covenants in our loan and financing agreements with banks and trust companies. Certain of our credit facilities taken out by us or our operating subsidiaries also contain cross-default conditions. These conditions deem a breach of the default conditions under the financing facility by the related companies of such operating subsidiaries and their guarantor(s) to be a default by such operating subsidiaries. If any cross default occurs, these banks are entitled to accelerate payment of all or any part of the indebtedness under the relevant loan agreements and to enforce all or any of the security for such indebtedness. Moreover, some of our loan agreements restrict our operating subsidiaries from making any distribution to their shareholders as long as the loans are outstanding. In addition, many of our loan agreements contain covenants, pursuant to which we or our relevant PRC operating subsidiaries may not undertake certain transactions such as merger, joint venture, restructuring, capital reduction, transfer of material assets, liquidation and distribution without the relevant lenders’ prior written consent. Failure to comply with any of those covenants or repay these loans in part or in full at their respective maturity dates may trigger the lenders’ exercise of their rights and therefore may have a material adverse effect on our business, financial condition and results of operations.

We may not be able to execute our contemplated expansion plan successfully

As of June 30, 2020, our property portfolio consisted of 29 projects completed located in Beijing, Haikou, Wanning, Shantou, Foshan, Shenyang, Zhengzhou, Langfang and Chongqing. We intend to continue to focus on Beijing-Tianjin-Hebei, Yangtze River Delta, the Pearl River Delta region and the economic corridor of the BRI and to actively identify other suitable markets with high growth potential for our further expansion in the next five to 10 years. In addition, we plan to develop Grade A office buildings in central business districts of first- and second-tier cities that are provincial capitals in the PRC.

On November 23, 2020, we entered into eight termination agreements with the Target Companies and their respective existing shareholders to terminate the capital contribution arrangements. Upon completion of the termination agreements, as we will cease to hold any equity interest in the Target Companies, the financial results of each of the Target Companies will cease to be consolidated into those of our Group. The net assets of the Target Companies held by the us is approximately RMB2,346.85 million as of June 30, 2020 and we estimate that the completion of the termination agreements will record a loss of approximately RMB553.89 million due to the applicable accounting treatment. Due to the project delivery and settlement schedules of the property projects developed by these Target Companies and their historical land bank and contracted sales contributions to our property portfolio, we believe that these Target Companies have contributed a significant portion to our total revenue and profit and therefore, the termination of these capital contribution arrangements may adversely affect our business operations and financial performance in the recent periods. However, from the perspective of long-term development strategy, we believe such terminations are in the interest of our Company and our Shareholders as a whole in terms of our cash flow and financing cost management and sales performance in light of current market situation and economic environment. See the section entitled “Business — Recent Developments — Termination of Capital Contribution Arrangement” of this offering memorandum.

Although our planned projects are carefully chosen after rounds of screening, review and deliberation, such large-scale rapid expansion may strain our managerial and financial resources. The rapid increase in the volume of our developments brought by such expansion may present challenges in terms of project construction and delivery management. Although we have formulated a standardized operational model to facilitate the management of our projects nationwide, any failure to follow our standards or inconsistencies in our compliance across different geographical regions may damage the quality of our properties and negatively impact our reputation. In addition, expanding into new geographic locations requires a significant amount of capital and management resources. Any failure in the effective management of our large volume of developments may materially and adversely affect our ability to deliver properties to our buyers in a timely manner and harm our reputation and our growth prospects. In addition, our expansion plans are based on our forward-looking assessment of the market prospects. Although we believe that such judgments and decisions constitute one of our strengths, we cannot assure you that our market assessment will turn out to be accurate, or that we will be able to execute our expansion plans successfully or that we will succeed in integrating our expanded operations despite our standardized operational model, especially in light of the uncertain economic conditions as a result of the global economic slowdown and financial crisis. There can be no assurance that our expanded operations will generate adequate returns on our investments or positive operating cash flows.

Third-party contractors may fail to provide satisfactory, timely services. In addition, we may not be able to find a sufficient number of high-quality third-party contractors during our expansion

We do not have our own construction team and therefore have to engage third-party contractors to provide various services relating to our property development projects. Such work includes, among other things, pile setting, foundation building, construction, equipment installation, electromechanical and pipeline engineering, elevator installation and landscaping as well as part of the design work. We implement a standardized and streamlined process to select our suppliers including contractors. See the section entitled “Business — Project Development Management — Our Standardized Property Development Process — Contracting, Procurement, Project Management and Quality Control — Contracting and Procurement” in this offering memorandum. However, any such third-party contractor may fail to provide satisfactory services at the level of quality or within the timeline required by us. In addition, completion of our property development projects may be delayed, and we may incur additional costs due to the delay. If the performance of any third-party contractor is not satisfactory, we will use our best efforts to replace such contractor or take other remedial actions. However, we cannot assure you that such remedial actions will be effective or our cost structure and development schedule as well as our reputation, credibility, financial position and business operations will not be materially and adversely affected. In addition, if we expand our business into other geographical locations in the PRC, due to the varying speed of development of the property markets in different cities, we cannot assure you that we will find a sufficient number of high-quality third-party contractors in such locations.

We have engaged and may continue to engage third-party property management companies to manage the daily operations of substantially all of our investment properties. If the performance of our third-party management companies is not satisfactory, our investment properties may experience low occupancy rates, which would lead to a loss of income or have an adverse impact on our reputation. If we were unable to successfully manage our investment properties, our business, financial condition, results of operations and prospects could be materially and adversely affected.

Fluctuations in the cost of labor and the price of construction materials could affect our business and financial performance

We engage third-party contractors for construction of our projects. Such contractors are responsible for procuring steel, cement and cables. Steel and cement prices have been volatile in recent years. According to our contracts with our contractors, in the event that the prices of the equipment and construction materials procured by our construction contractors fluctuate beyond a pre-determined percentage, we may be required to reimburse our contractors for any shortfall. See the section entitled “Business — Project Development Management — Our Standardized Property Development Process — Contracting, Procurement, Project Management and Quality Control — Contracting and Procurement” in this offering memorandum. In addition, we are responsible for procuring certain construction materials and equipment, especially those affecting product quality such as elevators, doors, windows, stone materials and interior decoration materials, directly from our suppliers. Further, as a result of the growth of the PRC economy, labor costs have increased substantially in recent years. Therefore, any increase in the cost of construction materials or contractors’ labor costs may lead to future increases in construction contract costs. If we cannot pass any or all of the increased costs on to our customers, our results of operations, financial condition and profitability will be materially and adversely affected.

We may not be able to complete our development projects on time

The progress of our property development projects may be materially and adversely affected by various factors, including:

- delay or inability to finance the construction;
- poor performance and efficiency of our third-party contractors;
- natural catastrophes and adverse weather conditions;
- national events or government actions, such as re-zoning;
- changes in market conditions, economic downturns, and decreases in business and consumer sentiment in general;
- failure to obtain, or material delays in obtaining, necessary government licenses, permits or approvals in carrying out our property development and management operations;
- changes in relevant regulations and government policies;
- relocation of existing residents and/or demolition of existing constructions;
- shortages of materials, equipment, contractors and skilled labor;
- labor disputes and strikes;
- construction accidents; and
- errors in judgment on the selection and acquisition criteria for potential sites.

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, lead to loss of or delay in recognizing revenues and lower returns and adverse impact on our cash flows. If a property project is not completed on time, the purchasers may be entitled to compensation for late delivery. If the delay extends beyond a certain period, the purchasers may be entitled to terminate their purchase and sale agreements 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.

Our business may be materially and adversely affected if we fail to obtain, or experience material delays in obtaining necessary licenses, permits, certificates and approvals in carrying out our property development and management operations

The property development industry in the PRC is heavily regulated. Property developers must comply with various laws and regulations, including rules stipulated by national and local governments to enforce these laws and regulations. To engage in property development and management operations, we are required to apply to relevant government authorities to obtain (and renew and maintain for those relating to on-going operations) various licenses, permits, certificates and approvals, including but not limited to, qualification certificates, land use rights certificates, construction land planning permits, construction work planning permits, construction work commencement permits, pre-sale permits and completion certificates. Before the government authorities issue or renew any certificate or permit, we must meet specific conditions. See the section entitled “Regulation” in this offering memorandum for details.

We cannot assure you that we will be able to adapt to new rules and regulations that may come into effect from time to time with respect to the property development industry or that we will not encounter other material delays or difficulties in fulfilling the necessary conditions to obtain and/or renew all necessary certificates or permits for our operations in a timely manner in the future.

In the event that we fail to obtain or renew, or encounter significant delays in obtaining or renewing, the necessary government approvals for any of our major property projects, we will not be able to continue with our development plans, and our business, financial condition and results of operations may be materially and adversely affected.

In addition, there can be no assurance that some of our project companies that are in the process of applying for or renewing proper qualification certificates will be able to obtain such certificates on a timely basis to commence their planned property development on schedule. There can be no further assurance that we and our project companies will continue to be able to extend or renew the qualification certificates or be able to successfully upgrade the current qualification class to a higher qualification. If we or our project companies are unable to obtain or renew qualification certificates, the PRC government will refuse to issue pre-sale and other permits necessary for the conduct of the property development business, and our results of operations, financial condition and cash flows will be materially and adversely affected. Further, if any of our project companies engages in the development and sale of properties outside the scope of its qualification certificate, it may be ordered to rectify such conduct within a prescribed period, be fined up to RMB100,000, or even have its business license revoked.

The PRC government may impose fines or other penalties on us if we fail to comply with the terms of the land grant contracts or listing-for-sale confirmation letters, and we may not be able to obtain land use rights certificates with respect to certain parcels of land

Under PRC laws and regulations, the PRC government may issue a warning, impose a penalty and/or reclaim our land if we fail to develop a particular project according to the terms of the relevant land grant contracts, such as the approved land use, payment of land premiums and other fees, and the time for commencement and completion of development.

Under current PRC laws and regulations, we may be subject to late penalties as stipulated in the land grant contracts if we fail to pay any outstanding land premium by the stipulated deadline. If we fail to commence development for more than one year from the commencement date stipulated in the land grant contracts, the relevant PRC land bureau may serve an investigation notice and impose an idle land fee of up to 20% of the land premium on us if the delay is found out not to be caused by government actions or force majeure or preliminary work necessary for the commencement of construction. If we fail to commence development for more than two years, the land may be subject to forfeiture by the PRC government unless the delay is caused by government actions or force majeure or preliminary work necessary for the commencement of construction. Furthermore, even if we commence development in accordance with the land grant contracts, if the developed land area is less than one-third of the total land area, or if the total capital expenditure on land development is less than one-fourth of the total amount expected to be invested in the project, and the development of the land is suspended for over one year without government approval, the land may be treated as idle land.

We cannot assure you that we will be able to fully comply with the obligations under the land grant contracts or listing-for-sale letters in the future due to factors which are beyond our control, or that our property development projects will not be subject to idle land penalties or be taken back by the government as a result of such delays. If we fail to comply with the terms of any land grant contract or listing-for-sale confirmation letter as a result of delays in project development or any other reasons, we may lose our previous investments in the land and the opportunity to develop the project, which may have a material adverse effect on our business, results of operations and financial condition.

Our results of operations may vary significantly from period to period

We derive the majority of our revenue from the sale of properties that we have developed, primary land development projects and property investment. Our results of operations from property development may vary significantly from period to period due to the timing of sales and delivery of our various development projects. Additionally, selling prices of properties vary and are largely determined by local market conditions. Furthermore, according to our accounting policy for revenue recognition, we recognize revenue from the property development upon delivery to purchasers. We can only undertake a limited number of projects during a specific period due to our substantial capital requirements. Therefore, our operational results in any period are significantly affected by the delivery made during such period.

In addition, the volatility of our results of operations is affected in part by certain non-recurring gains such as changes in fair value of investment properties and fair value gain upon transfer to investment properties. Revenue generated from our primary land development project during a specific period is recognized by multiplying the total contract revenue estimated by us by the proportion that costs incurred during the period bear to the estimated total costs of the contract. Our estimation of the contract revenue and recoverable costs is subject to final approval by the government. See the section entitled “Business — Primary Land Development” of this offering memorandum for more details. Therefore, the compensation determined by the government for one primary land development project may not recur and bear little indication to our performance of future primary land development project and future results of operations and financial condition.

Accordingly, our interim results for a certain period may not be indicative to our performance for that year or otherwise comparable to our results in previous periods. In light of the above, our directors believe that period-to-period comparisons of our operating results may not be as meaningful as they would be for a company with a greater proportion of recurring revenues. If our operating results in one or more periods do not meet the market’s expectations, the price of our Shares could be materially and adversely affected.

Our profitability and results of operations are affected by the development and profitability of our investment properties and our ability to continue to attract and maintain key tenants

For the years ended December 31, 2017, 2018, 2019 and for the six months ended June 30, 2019 and 2020, our rental income from leasing of properties accounted for 4.6%, 7.7%, 7.5%, 7.6% and 8.4%, respectively, of our total revenue. As we seek to selectively increase our portfolio of investment properties by adding investment properties with good locations and high appreciation potential, rental income may become an increasingly important contributor to our revenue going forward. We may not, however, be able to identify new tenants or retain existing tenants for our properties for lease. In addition, an increase in the number of competing properties, particularly in close proximity to our properties, could increase competition for tenants and force us to reduce rent or incur additional costs in order to make our properties more attractive. If there is a significant downturn in the commercial property leasing markets generally or in the cities where we have investment properties, we may not be able to maintain our current levels of rental income. Our inability to expand our portfolio of commercial properties for lease and operations, to secure suitable tenants or otherwise to enhance the profitability of our investment properties or to maintain our current levels of rental income may have a material adverse effect on our business, financial condition and results of operations.

The hotel industry is cyclical, and our future hotel properties may not be able to replicate our success in residential and other commercial property development

We currently have two hotels under development in Shantou and Qidong. We may retain the ownership of the hotels and may develop and own additional hotels in the future. The results of operations of our hotel properties will depend, to a large extent, on the performance of the economy and the property market conditions in the PRC. The hotel industry has been cyclical and affected by, among other factors, the supply of, and demand for, comparable properties, the rate of economic growth, interest rates, inflation, and political and economic development. There can be no assurance that the PRC economy will not slow down or that hotel property values and rates will not decline. We may face considerable reputational and financial risks if the hotels do not meet the expectations of hotel customers. In addition, we cannot assure you that there will be sufficient demand for our hotel properties. A general decline in the economy, or in hotel property values and rates, may have a material adverse effect on our business, financial condition and results of operations.

Property owners may not retain us as the provider of property management services

We provide property management services to owners of all residential properties developed by us through our property management subsidiary, Glory Services (as defined below). Under PRC laws and regulations, property owners of a residential development have the right to change the property management service provider upon the approval of a certain percentage of the property owners of that residential development. If owners of the properties that we have developed are not satisfied with our property management services, they may terminate our property management services or publish negative feedback in respect of our property management services, in which case our reputation, future sales of our properties and our results of operations could be materially and adversely affected.

The relevant PRC tax authorities may challenge the basis on which we calculate our LAT obligations

In accordance with PRC tax laws and regulations on LAT, all persons including companies and individuals that receive income from the sale or transfer of land use rights, buildings and their attached facilities are subject to LAT at progressive rates ranging from 30% to 60% of the appreciated value of the property. Pursuant to a circular issued by the State Administration of Taxation, effective on February 1, 2007 and amended on June 15, 2018, LAT obligations must be settled with the relevant tax bureaus within a specified time frame after the completion of a property project.

From time to time we make provisions for the full amount of applicable LAT in accordance with the relevant PRC tax laws and regulations pending settlement of the same with the relevant tax authorities. As we often develop our projects in phases, deductible items for calculation of LAT, such as land costs, are apportioned amongst such different phases of development. Provisions for LAT are made on our own estimates based on, among others, our own apportionment of deductible expenses which is subject to final confirmation by the relevant tax authorities upon settlement of the LAT. We believe that our overall provisions for LAT are sufficient. However, given the gap between the time at which we make provision for and the time at which we settle the full amount of LAT payable, the relevant tax authorities may not necessarily agree with our own apportionment of deductible expenses or other bases on which we calculate LAT. Hence, our LAT expenses as recorded in our financial statements of a particular period may require subsequent adjustments. For the years ended December 31, 2017, 2018 and 2019 and for the six months ended June 30, 2019 and 2020, we recorded LAT expenses in the amount of RMB797.1 million, RMB477.6 million, RMB322.6 million (US\$45.7 million), RMB164.1 million and RMB194.4 million (US\$27.5 million), respectively. If we substantially underestimate LAT for a particular period, a payment of the actual LAT assessed on us by the tax authorities could materially and adversely affect our financial results for a subsequent period.

Our success depends on the continuing services of our key management members

We depend on the services provided by our senior management and other skilled and experienced key staff members, in particular, Chairman Zhang. Chairman Zhang has more than 20 years of experience in the PRC property development industry. Other members of our senior management team also have substantial experience in the PRC property development industry, with an average of over 16 years of relevant experience. As competition for experienced managerial talents and skilled personnel in the property development market is intense and the pool of qualified candidates is limited, 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. The loss of the services of our senior management or other key personnel and failure to find qualified replacements could disrupt and adversely affect our operations. Moreover, along with our rapid growth and expansion into other regional markets in the PRC, we will need to hire and retain skilled managers to lead and manage our regional operations. If we cannot attract and retain qualified personnel, our business and future growth may be materially and adversely affected.

Our controlling shareholder is able to influence our corporate policies and direct the outcome of corporate actions requiring shareholders' approval

As of June 30, 2020, approximately 76.45% of our outstanding shares were beneficially owned by our controlling shareholder, Chairman Zhang. The interests of our controlling shareholder may differ from our interests or the interests of our other shareholders. Subject to compliance with the Listing Rules and applicable laws, by maintaining such ownership, Chairman Zhang is able to influence our corporate policies, appoint our directors and officers and vote on corporate actions requiring shareholders' approval. In particular, the strategic goals of Chairman Zhang may not be aligned with our strategies and could reduce the level of management flexibility that would otherwise exist with a more diversified shareholder base. We cannot assure you that our controlling shareholder will act entirely in our interest or that any potential conflicts of interest will be resolved in our favor.

The property development business is subject to claims under statutory quality warranties

Under Regulations on the Administration of Quality of Construction Works (《建設工程質量管理條例》), which became effective on January 20, 2000 and amended on October 7, 2017 and April 23, 2019, all property developers in the PRC must provide certain quality warranties for the properties they construct or sell. We are required to provide these warranties to our customers. Generally, we receive quality warranties from our third-party contractors with respect to our property projects. If a significant number of claims are brought against us under our warranties, and if we are unable to obtain reimbursement for such claims from third-party contractors in a timely manner, or if the money retained by us or the indemnity provided to cover our payment obligations under the quality warranties is not sufficient, we may incur significant expenses to resolve such claims or face delays in remedying the related defects, which may in turn harm our reputation, and materially and adversely affect our business, financial condition and results of operations.

Potential liability for environmental problems may delay our property development schedules and increase development costs

We are subject to a variety of laws and regulations concerning the protection of the environment. Environmental laws and regulations can prohibit or severely restrict property development activities in environmentally sensitive regions or areas and may vary significantly depending on the location, environmental condition and present and former uses of the site. Compliance with environmental laws and regulations may delay our property development schedules and increase our compliance and other costs and can severely restrict project development activities in environmentally sensitive regions or areas. See the sections entitled “Business — Environmental Matters” and “Business — Legal Proceedings” in this offering memorandum for details.

As required by PRC laws, we engage independent environmental consultants to conduct environmental impact assessments at all of our construction projects and submit such environmental impact assessment documents to the relevant government authorities for approval before commencement of construction. The local authorities may request a developer to submit the environmental impact documents, issue orders to suspend the construction and impose a penalty for a project where environmental impact assessment documents have not been approved before commencement of construction. It is also possible that the environmental impact assessment conducted may not reveal all environmental liabilities or their extent, and there may be material environmental liabilities of which we are unaware. If any portion of the project is found to be non-compliant with relevant environmental standards, we may be subject to suspension of our operations of such project as well as fines and penalties.

We guarantee mortgage loans of our customers and may become liable to mortgagee banks if customers default on their mortgage loans

In line with industry practice, we have entered into arrangements with various banks for the provision of mortgage financing to our customers. We do not conduct independent credit checks on our customers, but rely on credit checks conducted by relevant banks. As with other property developers in the PRC, the banks usually require us to guarantee our customers’ obligations to repay the mortgage loans on the properties. The guarantee period normally lasts until the bank receives the strata-title building ownership certificate (分戶產權證) from the customer as security of the mortgage loan granted. As of June 30, 2020, our outstanding guarantees in respect of the mortgages of our customers amounted to RMB8,801.2 million (US\$1,245.7 million). If a customer defaults under a mortgage loan during the term of the guarantee, we may be required to repay all debt owed by such purchaser to the mortgagee bank under the loan. Under such circumstances, we have the right to forfeit the down payment received and sell the repossessed properties. See the section entitled “Business — Project Development Management — Our Standardized Property Development Process — Completion, Delivery and After-sales Services — Customers Payment Arrangements” for more details of our guarantees provided in respect of mortgage loans borrowed by customers. Should any material default in repayment of mortgage loans by our customers during our guarantee periods occur and if we are called upon to honor our guarantees, our financial condition and results of operations may be materially and adversely affected.

We may not be in full compliance with the applicable PRC laws and regulations

We were not, and may from time to time not be, in full compliance with the applicable PRC laws and regulations. Some of our recent non-compliance incidents include commencement of construction before obtaining construction work commencement permits. Although we have put in effect internal control measures to prevent occurrence of similar incidents in the future, there is no assurance that we will not have any non-compliance incidents in the future. Any future judgment or penalty against us in respect of these non-compliance incidents could have a material adverse effect on our reputation, cash flow and results of operations.

We may be involved in legal and other disputes from time to time arising from our operations and may face significant liabilities as a result

We may from time to time be involved in disputes with various parties involved in the development and the sale of our properties, including contractors, suppliers, construction companies, original residents and business or joint venture partners. Purchasers of our properties may also take legal actions against us if our developed properties are perceived to be inconsistent with our representations and warranties made to such purchasers. These disputes may lead to protests or legal or other proceedings such as asset freezing or other enforcement measures, and may result in damage to our reputation, substantial costs to our operations and diversion of resources and management's attention from our core business activities. In addition, we may have compliance issues with regulatory bodies in the course of our operations, and as a result, we may face administrative proceedings and unfavorable decisions that may result in liabilities and cause delays to our property development. We may be involved in other proceedings or disputes in the future that may have a material adverse effect on our business, financial condition, results of operations or cash flows.

We may encounter delays in the issuance and delivery of title documents after sale and such delay may in turn give rise to claims from our customers

Sales contracts relating to our property projects are prepared in accordance with applicable legal requirements and, if applicable, local regulations and practices prescribed by local governmental authorities. Under PRC laws, sales contracts must be properly registered with the relevant authorities in order for the property transfer to be effective, and the failure to so register may result in delay of the property transfer. We generally undertake to attend to all filing and registration procedures required of property developers so as to facilitate subsequent applications by our customers for issuance of strata-title Building Ownership Certificates (分戶產權證). If there are any changes in practice of the relevant government authorities or interpretation of the applicable rules and regulations, we may be under legal obligations to procure delivery of strata-title Building Ownership Certificates for our customers and we may experience delays that are beyond our control, such as time-consuming examination and approval processes at various government agencies, in completing certain deliverables. In such circumstances, we may be subject to claims from our customers for breaching the terms of the sales contracts or otherwise and our business and financial condition may be materially and adversely affected and our reputation may be damaged in the case of serious delays of one or more of our property projects.

Our current insurance coverage may not be adequate to cover all risks related to our operations

Under PRC laws, construction companies bear the primary civil liability for personal injuries arising out of their construction work. The owner of a property under construction may also bear liability supplementary to the liability of the construction company if the latter is not able to fully compensate the injured. The owner of the property may also bear civil liability for personal injuries, accidents and death if such personal injuries, accidents or death are caused by the fault of such owner.

In respect of the investment properties we hold, we do not have a unified policy of procuring insurance policies for all such properties. Whilst some of our investment properties are covered by property all-risk, equipment damage and public liability insurance, each of our subsidiaries holding an interest in and/or managing investment properties is at liberty to procure its own insurance policy from insurance companies. The level of insurance coverage acquired for each of the investment properties we own and/or manage may not be adequate to cover all the potential losses. Furthermore, there are certain types of losses, such as losses due to earthquakes, typhoons, flooding, war and civil disorder, for which insurance is not available on what we believe to be commercially reasonable terms in the PRC. In addition, in line with general industry practice in the PRC, we do not maintain insurance in respect of litigation risks, business termination risks, product liability or important personnel. As a result, we have not purchased insurance to cover any such losses.

If we suffer any losses, damages or liabilities in the course of our business operations, we may not have adequate insurance coverage for such losses, damages or liabilities or to replace any property that has been destroyed. Therefore, we may sustain losses, damages and liabilities because of our lack of insurance coverage, which may in turn materially and adversely affect our financial condition and results of operations.

We engage in resettlement operations that involve the resettlement of existing residents and the resettlement process may be delayed or not be completed as planned, and as a result our land acquisition and development process may be materially and adversely affected

We may from time to time undertake primary land development projects, whereby we are responsible for the compensation and resettlement of affected local residents, the demolition of existing structures and the clearing of land of the relevant areas. We are often required to repay certain amounts to the local government authorities before commencement of such resettlement operations. In cases where resettlement of local residents is involved, we may be required to compensate the affected local residents in accordance with applicable laws and regulations. Any disputes with local residents as to the related compensation or refusals of dissenting residents for relocation may increase our resettlements costs, delay the resettlement process and the subsequent land acquisition and development process, which may in turn have a material adverse effect on our business, results of operation and financial condition.

Any damage to our brand image may materially and adversely affect our business, financial condition and results of operations

We rely on our reputation and brand image to a significant extent to attract potential customers for our properties. Any negative incident, unauthorized use of our brand name or image or negative publicity concerning us or our properties may materially and adversely affect our reputation and business prospects. Reputation and brand image are based largely on consumer perceptions with a variety of subjective qualities and can be damaged even by isolated business incidents that degrade consumer trust. 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 in our properties, or if we are perceived to act in an unethical or socially irresponsible manner. In addition, the performance of our tenants or occupiers may also affect our reputation and public image. Any negative publicity and the resulting decrease in brand value may have a material adverse effect on our business, financial condition and operating results.

We may not be able to fully detect money laundering and other illegal or improper activities in our business operations on a timely basis

We are required to comply with applicable anti-money laundering, anti-terrorism laws and other regulations in the PRC and other relevant jurisdictions. The PRC's anti-money laundering law requires financial institutions to establish sound internal control policies and procedures with respect to anti-money laundering monitoring and reporting activities. Such policies and procedures require us, among other things, establish a customer identification system in accordance with the relevant rules, record the details of customer activities and report suspicious transactions to the relevant authorities. While we have adopted policies and procedures aimed at detecting and preventing the use of our business vehicles to facilitate money laundering activities and terrorist acts, such policies and procedures in some cases have only been recently adopted and may not completely eliminate instances in which it may be used by other parties to engage in money laundering and other illegal activities. In the event that we fail to detect money laundering or other illegal or improper activities or fail to fully comply with applicable laws and regulations, the relevant government agencies may conduct investigations on our business and senior management, freeze our assets or impose fines or other penalties on us. Any of these may materially and adversely affect our business reputation, financial condition and results of operations.

RISKS RELATING TO THE REAL ESTATE INDUSTRY IN THE PRC

We face intense competition

The property market in Beijing and the Pearl River Delta region, which we are currently focusing on and plan to further expand into, as well as other cities such as Shenyang, Zhengzhou, Haikou, Langfang, Wanning, Shenzhou and Suzhou has been competitive in recent years. Many of our competitors, including overseas listed foreign developers and top-tier domestic developers, may have more financial, marketing, or other resources than us and may be more sophisticated than us in terms of engineering and technical skills. Competition among property developers may cause an increase in land costs and raw material costs, shortages in quality construction contractors, surplus in property supply leading to property price decline, further delays in issuance of governmental approvals, and higher costs to attract or retain talented employees. Moreover, property markets across the PRC are influenced by various other factors, including changes in economic conditions, banking practices and consumer sentiment. If we fail to compete effectively, our business operations and financial condition will be materially and adversely affected.

The PRC property market is heavily regulated and subject to frequent introduction of new regulations which may adversely affect property developers

The PRC government exerts considerable direct and indirect influence on the growth and development of the PRC property market through industry policies and other economic measures such as setting the benchmark interest rates of commercial banks, increasing bank reserve ratios and implementing lending restrictions, increasing tax and duties on property transfers, imposing foreign investment and currency exchange restrictions, restricting foreign investment in the PRC property sector and restricting or reducing the supply of land for property development. In particular, from 2003, the PRC government introduced a series of regulations and policies designed to generally control the growth of the property market, including, among others:

- strictly enforcing idle land-related laws and regulations;
- restricting the grant or extension of revolving credit facilities to property developers that hold large amounts of idle land and vacant commodity properties;
- prohibiting commercial banks from lending funds to property developers with an internal capital ratio of less than a certain prescribed percentage; and
- restricting PRC commercial banks from granting loans to property developers for the purpose of paying land grant premiums.

In particular, since 2020, there has been news mentioning that the PBOC plans to control the scale of interest-bearing debts of property developers in China by applying a newly proposed standard in the assessment of the debt burden of property developers, which sets out limits for three financial ratios of the property developers. Any failure to comply with one of these three financial ratios, namely the liability-to-assets ratio (excluding contract liabilities), the net debt-to-equity ratio and the cash ratio, may adversely affect our ability to obtain additional financing. Further, since 2021, according to the Circular on Establishing a Centralized Management System for Real Estate Loans of Banking Financial Institutions (《關於建立銀行業金融機構房地產貸款集中度管理制度的通知》) which was promulgated by the PBOC and the CBIRC and came into effect on January 1, 2021, the proportion of the balance of real estate loans of Chinese-funded banking financial institutions shall satisfy the administrative requirements not to be higher than the corresponding upper limits specified by the PBOC and the CBIRC. Such restriction on financial institutions may increase our difficulties to obtain additional financing from the relevant PRC commercial banks.

In addition, the PRC government also introduced the following policies, among others, to specifically control the growth of the residential property market:

- raising the minimum amount of down payment required to purchase residential property;
- tightening the availability of individual housing loans in the property market to individuals and their family members with more than one residential property;
- limiting the availability of individual housing provident fund loans for the purchase of second (or more) residential properties by individuals and their family members; and
- imposing a VAT tax levy on the sales proceeds for second-hand transfers based on the length of holding period and type of properties and a 20% tax on profits from the individual sale of second-hand homes.

See the section entitled “Regulation” in this offering memorandum for details.

We cannot assure you that the PRC government will not implement further tightening measures to restrain the PRC property market at the national, provincial, municipal or local level, in which case the declining trends in transaction volume and selling prices of properties in the PRC may continue or further intensify, and as a result, our financial condition and results of operations may be, and or may continue to be, materially and adversely affected.

Policies and regulations introduced by the PRC government with respect to overseas investment may restrict our ability to secure new projects and related investments

The PRC government has introduced a number of policies and regulations aimed at regulating overseas investment in the property development industry in the past few years. On July 11, 2006, the Ministry of Construction, MOFCOM, NDRC, the PBOC, SAIC and SAFE issued the Opinions on Regulating the Entry and Administration of Foreign Investment into the Property Market (《關於規範房地產市場外資准入和管理的意見》), which revised on August 19, 2015. On May 23, 2007, the MOFCOM and SAFE issued the Circular on the Reinforcement and Regulation of 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》) (“Notice 50”). On November 11, 2015, MOFCOM and SAFE jointly issued the Circular on Further Improving the Record-filing for Foreign Investment in Real Estate (《關於進一步改進外商投資房地產備案工作的通知》).

Pursuant to the requirements in the above-mentioned circulars, we must apply to the relevant examination and approval authorities if we plan to expand the scope of our business or the scale of our operations, engage in new project development or operations or increase the registered capital of our PRC foreign-invested subsidiaries in the future. If the PRC government issues further restrictive policies or regulations regulating or restricting foreign investment in the PRC property development industry, our business and operations, our ability to secure new projects may suffer and our business, financial condition and results of operations could be materially and adversely affected.

Compared with the matured international property market, property development in the PRC is still at an early stage

Private ownership of property in the PRC is still in a relatively early stage of development. Although demand for private residential property in the PRC has been growing rapidly in recent years, such growth is often coupled with volatility in market conditions and fluctuations in property prices. It is extremely difficult to predict by how much and when demand will develop, as many social, political, economic, legal and other factors, most of which are beyond our control, may affect the development of the market. The level of uncertainty is intensified by limited availability of accurate financial and market information as well as the overall low level of transparency in the PRC.

The lack of a liquid secondary market for residential property may discourage investors from acquiring new properties. In addition, the limited amounts and types of mortgage financing available to individuals, together with the lack of long-term security of legal title and enforceability of property rights, may also inhibit demand for residential property. Furthermore, risk of property over-supply is increasing in parts of the PRC, where property investment, trading and speculation have become overly active. In the event of actual or perceived over-supply, property prices may fall significantly and our revenue and results of operations will be adversely affected.

If as a result of any one or more of these or similar factors as described above, demand for residential property or market prices decline significantly, our business, financial condition and results of operations may be materially and adversely affected.

The revenue of property developers in the PRC depends on the availability of mortgages to property purchasers in the PRC and their ability to procure mortgages

Many property purchasers in the PRC rely on mortgages to finance their property purchases. A number of factors that are beyond our control may affect the market for and the availability of mortgages in the PRC.

Interest rates in the PRC have been relatively stable during the past decade. However, from October 2004 to December 2007, the PBOC took a series of actions to cool down the then overheated PRC economy by, among other things, raising its benchmark interest rates. There is no assurance that the PBOC will not raise the benchmark rates in the future. Any increase in interest rates will decrease the affordability and attractiveness of mortgage financing to our customers, and this may in turn materially and adversely affect demand for our properties.

In addition, the PRC government and commercial banks may also increase the down payment requirements, impose other conditions or otherwise change the regulatory framework in a manner that would make mortgage financing unavailable or unattractive to potential property purchasers. Also we provide guarantees to banks for the mortgages they offer to our customers. If there are changes in laws, regulations, policies and practices that would prohibit property developers from providing such guarantees, and if 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.

Any disruption to, or change in, the banking sector in the PRC that affects our customers' ability to obtain mortgages, or our ability to provide guarantees to such mortgages, may materially and adversely affect our liquidity and operational performance.

Changes in PRC laws and regulations with respect to pre-sale may materially and adversely affect our business performance

We depend on proceeds from the pre-sale of properties as an important source of funding for our property development. Under current PRC laws and regulations, property developers must fulfill certain conditions before they can commence pre-sale of the relevant properties and must use pre-sale proceeds for the sole purpose of financing the property development. We cannot assure you that the PRC government will not implement further restrictions on property pre-sale, such as imposing additional conditions for obtaining pre-sale permits or imposing further restrictions on the use of pre-sale proceeds. The adoption of any such measures may materially and adversely affect our cash flow position and force us to seek alternative sources of funding to finance our project development.

RISKS RELATING TO THE PRC

All of our assets are located in the PRC and all of our revenue is sourced from the PRC. Accordingly, our business, results of operations, financial position and prospects are subject, to a significant degree, to economic, political and legal developments in the PRC, including the following risks:

PRC economic, political and social conditions as well as government policies could adversely affect our business and prospects

The PRC economy differs from the economies of most of the developed countries in many aspects, including:

- its political structure;
- the level of the PRC government involvement and control;
- growth rate and the level of development;
- level and control of capital investment and reinvestment;
- the control of foreign exchange; and
- the allocation of resources.

The PRC economy has been transitioning from a centrally planned economy to a more market-oriented economy. For approximately three decades, the PRC government has implemented economic reform measures to utilize market forces in the development of the PRC economy and is continuing to play a significant role in regulating industries by imposing industrial policies. Although we believe these reforms will have a positive effect on the PRC's overall and long-term development, we cannot predict whether changes in the PRC's economic, political and social conditions and in its laws, regulations and policies will have any material adverse effect on our current or future business, financial condition or results of operations.

In addition, many of the economic reforms carried out by the PRC government are unprecedented or experimental and are expected to be refined and improved over time. This refining and adjustment process may not necessarily have a positive effect on our operations and business development. For example, the PRC government has in the past implemented a number of measures intended to slow down certain segments of the economy, including the real estate industry, which the government believed to be overheating. These actions, as well as other actions and policies of the PRC government, could cause a decrease in the overall level of economic activity in the PRC and, in turn, have a material adverse impact on our business and financial condition.

A slowdown of the PRC economy may slow down our growth and may affect our business

The PRC economy has recorded one of the world's fastest growth rates in terms of GDP. However, we cannot assure you that such growth will be sustained and continue in the future. In addition, a slowdown in the economies of the United States, the European Union and certain Asian nations with which the PRC has important trade relationships or any future calamities may materially and adversely affect the economic growth of the PRC. If the PRC economy experiences a significant downturn, our business, results of operations, financial condition and prospects may be materially and adversely affected.

China's economic growth may also slow down due to weakened exports as well as recent developments surrounding the trade-war with the United States. Starting in April 2018, the United States imposed tariffs on steel and aluminum imports from China, and later on July 6, 2018, the United States imposed 25% tariffs on US\$34 billion worth of Chinese goods as part of President Donald Trump's tariffs policy. In turn, the PRC responded with similarly sized tariffs on United States' products. On September 18, 2018, President Donald Trump imposed 10% tariffs on approximately US\$200 billion worth of Chinese goods and planned to increase further. In return, the PRC responded with tariffs on US\$60 billion of U.S. goods. On December 1, 2018, the United States and China agreed to temporarily pause the trade war and resume negotiation. The amicable resolution of such a trade war remains elusive, and the lasting impacts any trade war may have on the PRC economy and the PRC real estate industry uncertain. Should the trade war between the United States and the PRC begin to materially impact the PRC economy, the purchasing power of our customers in the PRC could be negatively affected.

In addition, rapid economic growth can lead to growth in money supply and inflation. If prices of our properties rise at a rate that is insufficient to compensate for the rise in our costs, our business, financial condition and operating results may be materially and adversely affected. To control inflation in the past, the PRC government has imposed control on bank credits, limits on loans for fixed assets and restrictions on state bank lending. Such austerity measures can lead to a slowdown in the economic growth and may materially and adversely affect our business, results of operation and financial condition.

The national and regional economies in the PRC and our prospects may be adversely affected by natural disasters, acts of God, and occurrence of epidemics

Our business is subject to general economic and social conditions in the PRC. Natural disasters, epidemics, other acts of God and other disasters that are beyond our control may materially and adversely affect the economy, infrastructure and livelihood of the people in the PRC. Some regions in the PRC, including the cities where we operate, are under the threat of flood, earthquake, sandstorm, snowstorm, fire or drought. Our business, financial condition and results of operations may be materially and adversely affected if these natural disasters occur.

Epidemics, such as Severe Acute Respiratory Syndrome, or SARS, H5N1 or H7N9 avian flu or the human swine flu, also known as Influenza A (H1N1), or, most recently, the novel coronavirus named COVID-19 by the World Health Organization, threaten people's lives and may materially and adversely affect their livelihoods. For examples, a destructive earthquake measured at magnitude 8.0 on the Richter scale took place in Sichuan Province of the PRC on May 12, 2008 and another earthquake measured at magnitude 7.1 hit Yushu county in Qinghai Province on April 14, 2010, and resulted in tremendous loss of lives and destruction of assets in the affected regions. Another destructive earthquake took place in Sichuan Province, near the city of Ya'an, in April 2013. A recurrence of SARS or an outbreak of any other epidemics or other natural disasters in China, especially in areas where we have operations may result in material disruptions to our property development and our sales and marketing, which in turn may materially and adversely affect our business, financial condition and results of operations.

Past occurrences of epidemics, depending on their scale, have caused different degrees of damage to the national and local economies in China. A recurrence of SARS, H5N1 avian flu, H1N1 influenza or an outbreak of any other epidemics in China, including, for example, the ongoing COVID-19 epidemic, especially in the cities in which we operate, if uncontrolled, could have an adverse effect on the overall business sentiment and environment in the PRC, which in turn may have an adverse impact on domestic consumption and, possibly, the overall GDP growth of the PRC. As a large proportion of our revenue is currently derived from our PRC operations, any contraction or slowdown in the growth of domestic consumption or slowdown in the GDP growth of the PRC may materially and adversely affect our financial condition, results of operations and future growth. In addition, if the Group's employees are affected by severe communicable disease, we may be required to close our facilities or institute other measures to prevent the spread of the disease, which may materially and adversely affect or disrupt our

production, resulting in an adverse effect on its results of operations. The spread of any severe communicable disease in the PRC may also affect the operations of our customers and suppliers, which may have an adverse effect on our financial condition and results of operations.

The COVID-19 pandemic may adversely affect the PRC economy, the PRC real estate industry and our business operations

Towards the end of 2019, a highly infectious novel coronavirus, was identified in and quickly spread in China. The World Health Organization, or the WHO, later named it COVID-19. WHO is closely monitoring and evaluating the situation. On January 30, 2020, the WHO declared the outbreak of COVID-19 a Public Health Emergency of International Concern, or the PHEIC. In March 2020, the WHO characterized the outbreak of COVID-19 a pandemic. As of the date of this offering memorandum, COVID-19 pandemic has spread to over 200 countries and territories globally with death toll and number of infected cases continued to rise. Many countries have imposed unprecedented measures to halt the spread of the COVID-19 pandemic, including strict city lockdowns and travel bans. Several cities in China where we have land bank and operations had been under a lockdown, and have imposed travel restrictions in an effort to curb the spread of COVID-19 pandemic.

According to the data released on April 17, 2020 by the National Bureau of Statistics of China, or the National Statistics Bureau, China's first quarter GDP of 2020 contracted by 6.8% in 2020 compared with the first quarter of 2019. The PRC real estate market in general is under pressure in the short term as the COVID-19 pandemic has curbed on-site sales, though the impact is likely to ease starting from April 2020. According to the data released by the National Statistics Bureau on April 17, 2020, China's real estate investment in the first quarter of 2020 amounted to RMB2,196.3 billion, representing a decrease of approximately 7.7% compared with the first quarter of 2019. The development of pandemic may adversely and materially affect economic growth globally due to reduce in demand and supply. On March 2, 2020 the Organization for Economic Cooperation and Development reduced 2020 GDP growth projects for almost all economies. Further, the pandemic may adversely and materially affect the stability of global financial markets. On March 9, 12, 16 and 18, 2020 trading on the New York Stock Exchange were halted for 15 minutes because S&P 500 trading price reached 7% below prior day's S&P 500 closing price. The unfolding pandemic may significantly reduce global market liquidity and depress economic activities.

The outbreak of COVID-19 pandemic caused the delay in resumption of local business in the PRC after the Chinese New Year holiday of the year 2020 and, as the outbreak extended, several countries have arranged to evacuate their nationals from Wuhan and introduced new restrictions on travel to and from China. The ongoing COVID-19 pandemic temporarily suspended our construction and sales activities in the first quarter of 2020. Given the high uncertainties associated with the COVID-19 pandemic at the moment, it is difficult to predict how long these conditions will last and the extent to which we may be affected. Should the disruption to our operations continue, we may experience delays in completion and delivery of our projects, which may materially and adversely affect our results of operations and financial condition and may also cause reputation damage. In addition, any further disruption to our sales activities may negatively affect our liquidity and access to capital. The COVID-19 pandemic may further create negative economic impact and increase volatility in the PRC and global market and continue to cause increasing concerns over the prospects of the PRC residential property market, which may materially and adversely affect the demand for properties and property prices in China. Since April 2020, China and some other countries gradually lifted stay-at-home orders and began to resume work and school at varying levels and scopes. However, there can be no assurance that this recovery momentum will continue in the future.

Fluctuations in foreign exchange rates and changes in foreign exchange regulations may have a material adverse impact on our business

Substantially all of our revenues and expenditures are denominated in Renminbi, which is currently not a freely convertible currency. We do not have a formal hedging policy and have not entered into any foreign currency exchange contracts or derivative transactions to hedge our currency risk. In addition, we will require foreign currencies for dividend payment (if any) to our shareholders. As a result, we are exposed to foreign currency fluctuations.

In the PRC, since 1994, the conversion of Renminbi into foreign currencies, including Hong Kong and U.S. dollars, has been based on rates set by the PBOC. Pursuant to reforms of the exchange rate system announced by the PBOC on July 21, 2005, Renminbi-to-foreign currency exchange rates are allowed to fluctuate within a narrow and managed band against a basket of foreign currencies, rather than being effectively linked to the U.S. dollar. In August 2015, the midpoint price of Renminbi against U.S. dollar decreased by 4.78% from August 10 to August 27, 2015, and further fluctuated in January 2016 after the PBOC announced an adjustment to the mechanism of determining the midpoint price of Renminbi against the U.S. dollar to make the exchange rate of Renminbi more market-based. Any appreciation of Renminbi may result in the decrease in the value of foreign currency-denominated assets. Conversely, any depreciation of Renminbi may adversely affect our business, results of operations and financial condition.

Capital account transactions in foreign currencies are subject to significant exchange controls and generally require the approval of PRC government authorities, including SAFE. Under the existing PRC foreign exchange regulations, by complying with certain procedural requirements, we will be able to pay dividends (if any) in foreign currencies without prior approval from SAFE. However, in the future, the PRC government may, at its discretion, take measures to restrict access to foreign currencies for current account transactions under certain circumstances. In this case, we may not be able to pay dividends in foreign currencies to our shareholders.

Interpretation of PRC laws and regulations involves uncertainty and the current legal environment in the PRC could limit the legal protections available to you

Our business is conducted in the PRC and is governed by PRC laws and regulations. All of our operating subsidiaries are located in the PRC and are subject to PRC laws and regulations. These regulations contain provisions that are required to be included in the articles of association of PRC companies and are intended to regulate the internal affairs of these companies. The PRC legal system is a civil law system based on written statutes, and prior court decisions have little 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 legislature has promulgated laws and regulations in relation to economic matters such as foreign investment, corporate organization and governance, commercial transactions, taxation and trade, with a view to developing a comprehensive system of commercial law, including laws relating to property ownership and development.

However, due to the fact that these laws and regulations have not been fully developed, and because of the non-binding nature of prior court decisions, interpretation of PRC laws and regulations involves a degree, sometimes a significant degree, of uncertainty. The interpretation of statutes, regulations and rules may also be subject to government policies which can change to reflect domestic political factors. Depending on the government agency or how or by whom an application or case is presented to such agency, we may receive less favorable interpretation of laws and regulations than our competitors. For example, on September 14, 2015, the NDRC issued the Circular on Promoting the Reform of the Administrative System on the Issuance by Enterprises of Foreign Debt Filings and Registrations (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”), which came into effect on the same date. According to the NDRC Circular, if a PRC enterprise or an offshore enterprise controlled by a PRC enterprise wishes to issue debt

securities outside of the PRC with a maturity of more than one year, such enterprise must, in advance of issuing such debt securities, file certain prescribed documents with the NDRC and procure a registration certificate from the NDRC in respect of such issuance (the “Pre-Issuance Registration Certificate”). In addition, the enterprise must also provide information on the issuance of the debt securities to the NDRC within 10 working days of the completion of the issue (the “Post-Issuance Filing”). The NDRC Circular is a recent regulation and its interpretation may involve significant uncertainty. In addition, the administration of the NDRC Circular may be subject to a certain degree of executive and policy discretion by the NDRC. However, there is no assurance that the Company will be able to comply with the NDRC requirements to provide the notification of the particulars of the issue of the Notes to the NDRC within the prescribed timeframe. The NDRC Circular does not expressly state the legal consequences of non-compliance with such post-issue notification requirements, therefore there is no assurance that the failure to comply with the NDRC requirements would not result in any adverse consequences for the Company, the Notes or the investors in the Notes. There is also no assurance that the registration with the NDRC will not be revoked or amended in the future or that future changes in PRC laws and regulations will not have a negative impact on the performance or validity and enforceability of the Notes in the PRC. Potential investors of the Notes are advised to exercise due caution when making their investment decisions. We cannot predict the effect of future legal developments in China, including the promulgation of new laws, changes in existing laws or their interpretation or enforcement, or the pre-emption of local regulations by national laws. In addition, any litigation in the PRC may be protracted and result in substantial costs and diversion of resources and management attention. All these uncertainties may limit the legal protections available to foreign investors, including you.

In addition, the PRC legal system is based, in part, on governmental policies and internal rules (some of which are not published on a timely basis or at all) that may have a retroactive effect. We may also be deemed to have violated certain policies or rules for the actions of our counterparties in various transactions even if we are not aware of whether our counterparties are acting in compliance with applicable PRC laws and regulations. Accordingly, we may not be aware of any actual or deemed violations of such policies and rules until some time after such violations have taken place. Furthermore, any litigation we undertake in the PRC, regardless of its outcome, may be protracted and result in substantial costs to us and diversion of both our resources and management attention.

You may experience difficulties in effecting service of process, enforcing foreign judgments or bringing original actions in the PRC against us or our directors or officers

We are a company incorporated under the laws of the Cayman Islands, but substantially all of our operations and assets are located in the PRC. As a result, it may not be possible for you to effect service of process within the PRC on, or to enforce any judgments obtained from non-PRC courts against us, our PRC subsidiaries or our management who reside in the PRC. The PRC does not have treaties or arrangements providing for the recognition or enforcement of civil judgments made by the courts in many other jurisdictions (including, but not limited to, the courts in the Cayman Islands and most other western countries). Therefore, the recognition and enforcement in the PRC of judgments obtained in such jurisdictions may be difficult or even impossible. In addition, there are doubts as to the enforceability in original actions brought in the PRC of actions predicated on the laws of other jurisdictions.

Failure to comply with the SAFE regulations relating to special purpose vehicles by our beneficial owners may materially and adversely affect our business operations, limit our ability to inject capital into our PRC subsidiaries, limit the ability of our PRC subsidiaries to distribute profit to us or subject us to fines

On October 21, 2005, SAFE promulgated the Notice on Relevant Issues Concerning Foreign Exchange Administration for Domestic Residents to Engage in Financing and Return Investment via Overseas Special Purpose Vehicles (《國家外匯管理局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》) (“Notice 75”) which became effective on November 1, 2005. The notice requires PRC residents (境內居民) to register with the local SAFE branch in the following

circumstances: (i) before establishing or controlling any company outside the PRC for the purpose of equity financing, (ii) after contributing their assets or shares of a domestic enterprise into overseas special purpose vehicles, or raising funds overseas after such contributions, and (iii) after any major change in the share capital of the special purpose vehicles without any return investment being made. On July 4, 2014, SAFE promulgated Notice on Relevant Issues Concerning Foreign Exchange Administration for Domestic Residents to Engage in Onshore and Offshore Financing, Investment and Return Investment via Overseas Special Purpose Vehicles (《國家外匯管理局關於境內居民通過境外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》) (“Notice 37”), which supersedes Notice 75. Under Notice 37, amendment of prior registration with the relevant SAFE branch is required where there are changes in basic information of the registered special purpose company or other material changes such as increase or decrease in individual PRC resident’s capital, share transfer or swap, merger or split.

If our beneficial owners fail to comply with such procedures, our PRC subsidiaries may not be able to remit foreign currency payments out of China, which may affect our ability to service our offshore indebtedness, including the Notes, and may materially and adversely affect our business operations.

We may be deemed a PRC resident enterprise under the PRC Enterprise Income Tax Law and be subject to PRC taxation on our worldwide income, and payments on, and proceeds from a sale of, the Notes may be subject to PRC tax

Under the PRC Enterprise Income Tax Law, which came into effect on January 1, 2008, enterprises established outside the PRC whose “*de facto* management bodies” are located in China are considered “resident enterprises” for PRC tax purposes and their global income will generally be subject to the uniform 25% PRC enterprise income tax rate. Under the Implementation Rules for the PRC Enterprise Income Tax Law, “*de facto* management bodies” is defined as management bodies that have material and overall management control over the business, personnel, accounts and properties of an enterprise. In April 2009, the PRC State Administration of Taxation specified certain criteria for the determination of “*de facto* management bodies” for enterprises incorporated overseas with controlling shareholders that are onshore enterprises or enterprise groups in the PRC. However, it remains unclear how the tax authorities will treat an overseas enterprise invested or controlled by another overseas enterprise and ultimately controlled by PRC individual residents, as in our case.

Substantially all of our management is currently based in the PRC and may remain in the PRC. Therefore, we may be treated as a PRC resident enterprise for PRC enterprise income tax purposes. The tax consequences of such treatment are currently unclear as they will depend on how PRC finance and tax authorities apply or enforce the PRC Enterprise Income Tax Law and the Implementation Rules.

Although it is unclear under PRC tax law whether we have a “*de facto* management body” located in the PRC for PRC tax purposes, we currently take the position that we are not a PRC resident enterprise for tax purposes. We cannot assure you that the tax authorities will agree with our position. If we are deemed to be a PRC resident enterprise for PRC Enterprise Income Tax Law purposes, we would be subject to the PRC enterprise income tax at the rate of 25% on our worldwide income, although dividends from our PRC subsidiaries may be exempted from such tax provided that the distribution is between two qualified PRC resident enterprises. Furthermore, we may be obligated to withhold PRC income tax at a rate of 10% on payments of interest and redemption premium on the Notes to investors that are non-resident enterprises, because the interest and redemption premium may be regarded as being derived from sources within the PRC. The tax rate may be reduced by an applicable tax treaty. For example, the tax rate may be reduced to 7% in the case of investors that are non-resident enterprises located in Hong Kong that are the beneficial owners of the income for purposes of the Arrangement Between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income. In the case of individual holders of Notes, a withholding tax on payments of interests and redemption premium on the Notes may be imposed at a rate of 20%. In addition, if we fail to withhold, we may be subject to fines and other penalties. If we are required to withhold PRC tax from interest payments on the Notes, we will be required, subject to certain exceptions, to pay such additional amounts as will result in receipt by the

holders of the Notes of such amounts as would have been received had no such withholding been required. The requirement to pay additional amounts will increase the cost of servicing interest payments on the Notes and could have a material adverse effect on our financial condition. Further, if we were treated as a PRC resident enterprise, any gain realized by a non-resident investor from the transfer of the Notes may be regarded as being derived from sources within the PRC and accordingly may be subject to a 10% PRC tax in the case of non-resident enterprises or 20% in the case of non-resident individuals, subject to the provisions of any applicable tax treaty.

RISKS RELATING TO THE NOTES

The Notes may initially be sold to a small number of investors; accordingly, a liquid trading market for the Notes may not develop. In addition, one or more of the initial investors may own a significant percentage of the Notes and may therefore be able to exercise certain rights and powers on behalf of all Noteholders.

The Notes may initially be sold to a small number of investors. Accordingly, a liquid trading market may not develop or be sustained, in which case you may not be able to resell your Notes at their fair market value or at all. In addition, one or more of the initial investors may purchase a significant percentage of the aggregate principal amount of the Notes in this offering. Additionally, as certain of our affiliates may also purchase the Notes, circumstances may occur in which our interests or those of our affiliates may be in conflict with the interest of other holders of the Notes. If such holder or our affiliate sells a material portion of the Notes in the secondary market, it may materially and adversely affect the trading price of the Notes. The negative effect of such sales on the prices of the Notes could be more pronounced if secondary trading in the Notes is limited or illiquid.

A holder of a significant percentage in aggregate principal amount of the Notes will have certain rights and powers under the Indenture and related documents, including either having a significant influence on or control of the outcome of votes on certain matters. While Notes held by our affiliates will be disregarded and deemed not to be “outstanding” in determining whether the holders of the requisite amount of outstanding Notes have given any request, demand, authorization, direction, notice, consent or waiver under the Indenture, non-affiliate holders of a majority in aggregate principal amount of the outstanding (i.e., non-affiliate held) Notes may, subject to certain exceptions, (i) direct the time, method and place of conducting any proceeding for exercising any remedy available to the Trustee or exercising any trust or power conferred on it, (ii) consent to amend the Indenture, the Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any) and (iii) waive any Default or Event of Default or compliance with any provision of the Indenture, the Notes, the Subsidiary Guarantees or the JV Subsidiary Guarantees (if any). Accordingly, any non-affiliate holder that holds a majority in aggregate principal amount of the outstanding Notes will be able to exercise such rights and powers on behalf of all holders of the Notes and control the outcome of votes on such matters. In addition, any non-affiliate holder that holds a significant percentage of the outstanding Notes, even if less than a majority, will be able to exercise certain rights and powers and will have significant influence on matters voted on by holders of the Notes. For example, non-affiliate holders of at least 25% in aggregate principal amount of the outstanding Notes may declare all of the Notes to be immediately due and payable if certain types of Events of Default have occurred and are continuing.

We are a holding company and payments with respect to the Notes are structurally subordinated to liabilities, contingent liabilities and obligations of our subsidiaries other than certain obligations of the Pledge Entities as described in the “Description of the Notes”.

We are a holding company with no material operations. We conduct our operations primarily through our PRC subsidiaries. The Notes will not be guaranteed by any current or future PRC subsidiaries or by certain other Non-Guarantor Subsidiaries as defined in the section headed “Description of the Notes”. Our primary assets are ownership interests in our PRC subsidiaries and other Non-Guarantor Subsidiaries. The Subsidiary Guarantors do not, and the JV Subsidiary Guarantors (if any) may not, have material operations. The Notes, however, will not be guaranteed by any of our current or

future PRC subsidiaries, or by certain other Non-Guarantor Subsidiaries. Accordingly, our ability to pay principal and interest on the Notes and the ability of the Subsidiary Guarantors and the JV Subsidiary Guarantors (if any) to satisfy their obligations under the Subsidiary Guarantees or the JV Subsidiary Guarantees (as the case may be) will depend upon our receipt of principal and interest payments on the intercompany loans and distributions of dividends from our PRC subsidiaries.

Creditors, including trade creditors of our Non-Guarantor Subsidiaries and any holders of preferred shares in such entities, would have a claim on such subsidiaries' assets that would be prior to the claims of holders of the Notes other than certain obligations of the Pledge Entities as described in the "Description of the Notes". As a result, our payment obligations under the Notes will be effectively subordinated to all existing and future obligations of such subsidiaries, and all claims of creditors of our Subsidiaries will have priority as to the assets of such entities over our claims and those of our creditors, other than certain obligations of the Pledge Entities as described in the "Description of the Notes", including holders of the Notes. As of June 30, 2020, we had bank and other borrowings and other indebtedness (including corporate bonds and senior notes) in the amount of RMB27,634.1 million (US\$3,911.4 million) and capital and other commitments and contingent liabilities of approximately RMB9,736,934 million (US\$1,378,173.6 million) and RMB8,801.2 million (US\$1,245.7 million), respectively. See the section entitled "Description of Other Material Indebtedness" in this offering memorandum. The Notes and the Indenture permit us, the Subsidiary Guarantors, the JV Subsidiary Guarantor (if any) and our Non-Guarantor Subsidiaries to incur additional indebtedness and issue additional guarantees, subject to certain limitations. The Notes and the Indenture do not restrict the ability of our subsidiaries to issue certain categories of guarantee in the ordinary course of business. In addition, our secured creditors or those of any Subsidiary Guarantor or JV Subsidiary Guarantor (if any) would have priority as to our assets or the assets of such Subsidiary Guarantor or JV Subsidiary Guarantor (if any) securing the related obligations over claims of holders of the Notes other than certain obligations of the Pledge Entities as described in the "Description of the Notes".

Under the terms of the Notes, a Subsidiary Guarantee required to be provided by a subsidiary of the Company under the terms of the Notes may be replaced by a limited-recourse guarantee, or JV Subsidiary Guarantee, following the sale or issuance to, or a purchase from, a third party of an equity interest in such subsidiary or its direct or indirect majority shareholders (subject to the satisfaction of certain conditions). Recovery under the JV Subsidiary Guarantees provided by a JV Subsidiary Guarantor and its shareholders and subsidiaries are limited to an amount equal to our proportional interest in the issued share capital of such JV Subsidiary Guarantor, multiplied by the fair market value of the total assets in such JV Subsidiary Guarantor and its subsidiaries, on a consolidated basis, as of the date of the last fiscal year end of the Company. As a result, the amount that may be recovered by the Trustee pursuant to a JV Subsidiary Guarantee (compared with a Subsidiary Guarantee) is reduced, which in turn may affect your ability to recover any amounts due under the Notes.

The Trustee and the Collateral Agent may each request the holders of the Notes to provide an indemnity and/or security and/or prefunding to its satisfaction.

In certain circumstances, the Trustee and the Collateral Agent may each request holders of the Notes to provide an indemnity and/or security and/or prefunding to its satisfaction before it will take actions on their behalf. Neither the Trustee nor the Collateral Agent will be obliged to take any such actions 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 when such actions can be taken. Further, the Trustee or the Collateral Agent may not be able to take actions, notwithstanding the provision of an indemnity or security or prefunding to it, in breach of the terms of the Indenture or in circumstances where there is uncertainty or dispute as to such actions' compliance with applicable laws and regulations. In such circumstances, to the extent permitted by any applicable agreements or applicable laws, it will be for the holders of the Notes to take such actions directly.

We are highly leveraged, including with indebtedness that will mature or become redeemable within one year, and may incur substantial additional indebtedness in the future, which could adversely affect our financial health and our ability to generate sufficient cash to satisfy our outstanding and future debt obligations

We now have, and will continue to have after the offering of the Notes, a significant level of indebtedness to finance our operations. As of December 31, 2017, 2018, 2019 and June 30, 2019 and 2020, our total current and non-current borrowings, which include our borrowings from banks and non-bank financial institutions, were RMB24,227.1 million, RMB23,299.0 million, RMB22,066.6 million (US\$3,123.3 million), RMB24,678.3 million and RMB23,074.4 million (US\$3,266.0 million), respectively and as of June 30, 2020 our corporate bonds were RMB588.7 million (US\$83.3 million). As of June 30, 2020, we also have outstanding senior notes of RMB3,970.9 million (US\$562.0 million), which will become due or subject to the investors' put option in 2021 and 2022. See "Description of Other Material Indebtedness" for more details. As a result, we are subject to refinancing risks against such maturing and redeemable indebtedness. We cannot assure you that we will be able to refinance our maturing/redeemable indebtedness, including those redeemable in 2021, in a timely manner on acceptable terms or at all. This risk is exacerbated by the current volatility in the global capital and credit markets. Out of our total borrowings (excluding corporate bonds and senior notes) as of June 30, 2020, RMB6,048.3 million (US\$856.1 million) was due within one year and RMB17,026.1 million (US\$2,409.9 million) was due in more than one year.

Our substantial indebtedness could have important consequences to you. For example, it could:

- limit our ability to satisfy our obligations under the Notes and other debt;
- increase our vulnerability to adverse general economic and industry conditions;
- require us to dedicate a substantial portion of our cash flow from operations to servicing and repaying our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and for other general corporate purposes;
- limit our flexibility in planning for or reacting to changes in our businesses and the industry in which we operate;
- place us at a competitive disadvantage compared with our competitors that have less debt;
- limit, along with the financial and other restrictive covenants of our indebtedness, among other things, our ability to borrow additional funds or create liens on our assets to secure new debts; and
- increase the cost of additional financing.

In the future, we may from time to time incur substantial additional indebtedness and contingent liabilities. The Indenture restricts us and our Restricted Subsidiaries from issuing additional debt, incurring contingent liabilities or issuing preferred stocks, these restrictions are subject to important exceptions and qualifications. Under the Indenture, our ability to incur additional debt is subject to limitation on indebtedness and preferred stock covenant. Under such covenant, we may incur (i) certain Permitted Indebtedness or (ii) additional indebtedness if we can, among other things satisfy the Fixed Charge Coverage Ratio. The Fixed Charge Coverage Ratio is derived by dividing Consolidated EBITDA by Consolidated Fixed Charges. Because our definition of Consolidated Net Income (which is a significant component of Consolidated EBITDA) for the Notes includes our unrealized gains on valuation adjustments on our investment properties, our Consolidated EBITDA and therefore our ability to incur additional debt under such covenant, could be substantially larger when compared to other similarly situated PRC senior notes issuers whose covenants do not typically include such unrealized gains in the definition of Consolidated Net Income. In addition, because our definition of Consolidated

Interest Expense for the Notes excludes the interest expense on indebtedness of third parties that we guarantee (except to the extent that such interest expense has become payable by us), our Consolidated Interest Expense and our ability to incur additional debt could be even larger when compared to other similarly situated PRC senior notes issuers whose covenants would typically include such interest expense in the definition of consolidated interest expense. If we or our subsidiaries incur additional debt or contingent liabilities or issue preferred stocks, the risks that we face as a result of our already substantial indebtedness and leverage could intensify. In addition, we have and in the future may continue to enter into certain trust financing arrangements under which we undertake mandatory repurchase obligations. In some circumstances these investments may need to be accounted for as indebtedness, resulting in a significant increase to our liabilities as reported in our statement of financial position. We may also be required to account for refundable pre-sale deposits owed to customers as debt, to the extent that the buyers have requested a refund of these deposits, and the refunds have not yet been made.

Our ability to generate sufficient cash to satisfy our outstanding and future debt obligations will depend upon our future operating performance, which will be affected by prevailing economic conditions and financial, business and other factors, many of which are beyond our control. We cannot assure you that we will be able to generate sufficient cash flow from operations to support the repayment of our current indebtedness. If we are unable to service our indebtedness (including the Notes), we will be forced to adopt an alternative strategy that may include actions such as reducing or delaying capital expenditures, selling assets, restructuring or refinancing our indebtedness or seeking equity capital. These strategies may not be instituted on satisfactory terms, if at all.

In addition, the terms of the Indenture prohibit us from incurring additional indebtedness unless (i) we are able to satisfy certain financial ratios or (ii) we are able to incur such additional indebtedness pursuant to any of the specific exceptions to the financial ratios requirements, and meet any other applicable restrictions. Our ability to meet our financial ratios may be affected by events beyond our control. We cannot assure you that we will be able to meet these ratios. Certain of our other financing arrangements also impose operating and financial restrictions on our business. See the section entitled “Description of Other Material Indebtedness”. Such restrictions in the Notes and our other financing arrangements may negatively affect our ability to react to changes in market conditions, take advantage of business opportunities we believe to be desirable, obtain future financing, fund required capital expenditures, or withstand a continuing or future downturn in our business. Any of these factors could materially and adversely affect our ability to satisfy our obligations under the Notes and other debt.

Our Company is a holding company that relies on payment from our subsidiaries for funding, and any limitation on the ability of our PRC subsidiaries to pay dividends or repay intercompany loans or advances to us may have a material adverse effect on our ability to conduct our business

We are a holding company incorporated in the Cayman Islands and operate our core business primarily through our PRC subsidiaries. We rely on dividends and interest and principal payments on intercompany loans or advances from our subsidiaries for cash requirements, including the funds necessary to service any debt we incur (including obligations under the Notes) and to pay any dividend we declare. The ability of our subsidiaries to pay dividends and make payments on intercompany loans or advances to us is subject to, among other things, distributable earnings, cash flow conditions, restrictions contained in the articles of association of our subsidiaries, applicable laws and restrictions contained in the debt instruments of such subsidiaries. Currently, certain of our subsidiaries are subject to restriction on dividend distributions under the applicable financing agreements, which have not been waived by the relevant creditors. See “— Risk Factors Relating to Our Business — Some of our operating subsidiaries in the PRC have not received waivers from the restrictions that prohibit or limit these subsidiaries from paying dividends to their parent company or other group entities” and “Description of Other Material Indebtedness”. In particular, our PRC subsidiaries are required to set aside a certain percentage of their after-tax profit based on PRC accounting standards each year for their reserve fund in accordance with the requirements of relevant laws and provisions in their respective articles of association. In addition, dividends paid by our PRC subsidiaries to their non-PRC parent

companies are subject to a 10% withholding tax, unless there is a tax treaty between the PRC and the jurisdiction in which the overseas parent company is incorporated that specifically exempts or reduces such withholding tax. Pursuant to the Agreement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Incomes (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》), if the non-PRC parent company is a Hong Kong resident and directly holds a 25% or more interest in the PRC enterprise, the withholding tax rate may be lowered to 5%. However, according to the Circular in Relation to the Understanding and Determination of “Beneficial Owners” in Tax Treaties (《關於如何理解和認定稅收協定中“受益所有人”的通知》) issued by the PRC State Administration of Taxation on October 27, 2009, tax treaty benefits will be denied to “conduit” or shell companies without engaging in any substantive operation activities of production, marketing and management. As a result, our PRC subsidiaries may be restricted in their ability to transfer any portion of their net income to us whether in the form of dividends, repayment of intercompany loans or advances or otherwise. In particular, a number of our subsidiaries in the PRC are parties to bank loan agreements that restrict their ability to pay dividends. See the section entitled “Description of Other Material Indebtedness.” In addition, restrictive covenants in bank credit facilities, trust financing agreements or other agreements that we or our subsidiaries may enter into in the future, if any, may also restrict the ability of our PRC subsidiaries to pay dividends and make payments on intercompany loans or advances to us. Furthermore, if any of our subsidiaries raises capital by issuing equity securities to third parties, dividends declared and paid with respect to such equity would not be available to us to make payments on the Notes. Any limitation on the ability of our PRC subsidiaries to pay dividends to us may materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our businesses, pay dividends, service our indebtedness (including the Notes) or otherwise fund and conduct our business.

Furthermore, in practice, the market interest rate that our PRC subsidiaries can pay with respect to offshore loans generally may not exceed comparable interest rates in the international finance markets. The interest rates on shareholders’ loans paid by our subsidiaries, therefore, are likely to be lower than the interest rate for the Notes. Our PRC subsidiaries are also required to pay a 10% (or 7% if the interest is paid to a Hong Kong resident, subject to approval by local tax authorities) withholding tax on our behalf on the interest paid under any shareholders’ loans. PRC regulations require any of our non-PRC subsidiaries making shareholder loans in foreign currencies to our PRC subsidiaries to be registered with SAFE. Prior to payment of interest and principal on any such shareholder loan, the PRC subsidiaries must present evidence of payment of the withholding tax on the interest payable on any such shareholder loan and evidence of registration with SAFE, as well as any other documents that SAFE or its local branch may require.

As a result of the foregoing, we cannot assure you that we will have sufficient cash flow from dividends or payments on intercompany loans or advances from our subsidiaries to satisfy our obligations under the Notes or the obligations of the Subsidiary Guarantors or JV Subsidiary Guarantors (if any) under the Subsidiary Guarantees or the JV Subsidiary Guarantees (as the case may be). Any limitation on the ability of our PRC subsidiaries to pay dividends to us may also materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our businesses or otherwise fund and conduct our business.

Our transfer of funds into the PRC to finance our development projects is subject to approval by the PRC government

The PRC government has implemented a series of rules and measures to control the inflow of foreign funds into the property development industry or for property speculation. The transfer of our net proceeds from the offering of the Notes into the PRC is subject to such PRC government control measures. Under PRC Laws, we are required to register or apply for approvals from relevant PRC governmental authorities if we plan to expand the scope of our business or the scale of our operations, engage in new real estate project developments or operations or increase the registered capital of our

subsidiaries or associated project companies in the PRC in the future. As a result, we must register and apply for approval with the relevant PRC governmental authorities, and wait till the requested approvals are completed before we may transfer the proceeds from the offering of the Notes into the PRC for the intended uses in the PRC.

In addition, any capital contributions or loans that we, as an offshore company, make to our PRC operating subsidiaries, including from the proceeds of the offering of the Notes, are subject to other foreign investment regulations in the PRC. Accordingly, PRC regulations on loans to and direct investments in PRC entities by offshore holding companies may delay or prevent our using the proceeds of this offering to make additional capital contributions to our PRC operating subsidiaries.

We may be subject to risks presented by fluctuations in exchange rates between the Renminbi and other currencies, particularly the U.S. dollar

The Notes are denominated in U.S. dollars, while substantially all of our revenues are generated by our PRC operating subsidiaries and are denominated in Renminbi. The PRC government may adopt reforms of its exchange rate system, including making the Renminbi freely convertible in the future. If such reforms were implemented and resulted in devaluation of the Renminbi against the U.S. dollar, our financial condition and results of operations could be materially and adversely affected because of our substantial U.S. dollar denominated indebtedness and other obligations. Such a devaluation could also materially and adversely affect the value, translated or converted into U.S. dollars or otherwise, of our earnings and our ability to satisfy our obligations under the Notes and other indebtedness denominated in foreign currencies.

There are limited hedging instruments available in the PRC to reduce our exposure to exchange rate fluctuations between the Renminbi and other currencies. To date, we have not entered into any hedging transactions to reduce our exposure to such risks.

We may not be able to repurchase the Notes at the option of the Holders of the Notes

Holders of the notes will have the right to require us to repurchase their Notes, in whole or in part, on (the date that is 15 months after the Original Issue Date) at a repurchase price equal to 100% of the principal amount of the Notes to be repurchased, plus accrued and unpaid interest as described under “Description of the Notes — Repurchase of Notes by the Company at the Option of the Holders.” However, we may not have enough available cash or be able to obtain financing at the time it is required to make repurchases of the Notes surrendered therefor. In addition, our ability to repurchase the Notes may be limited by law, by regulatory authority or by agreements governing our future indebtedness. Any failure by us to repurchase the Notes when the repurchase would constitute a default under the indenture governing the Notes. A default under the indenture governing the Notes could also lead to a default under other agreements governing any indebtedness.

We may not be able to repurchase the Notes upon an Investor Put Triggering Event

Upon the occurrence of a Change of Control, the holder of each Note will have the option to require us to redeem all or some of the holder’s Notes at a purchase price equal to 101% of the principal amount plus accrued and unpaid interest. Upon the occurrence of a Delisting/Suspension Put Triggering Event, the holder of each Note will have the option to require us to redeem all or some of the holder’s Notes at a purchase price equal to 100% of the principal amount plus accrued and unpaid interest. See the section entitled “Description of the Notes — Repurchase of Notes Upon an Investor Put Triggering Event.”

The source of funds for any such purchase would be our available cash or third-party financing. However, we may not have enough available funds at the time of the occurrence of any Investor Put Triggering Event to make purchases of the outstanding Notes. Our failure to make the offer to purchase or to purchase the outstanding Notes would constitute an event of default under the Notes. The event of

default may, in turn, constitute an event of default under other indebtedness, any of which could cause the related debt to be accelerated after any applicable notice or grace periods. If our other debt were to be accelerated, we may not have sufficient funds to purchase the Notes and repay the debt.

In addition, the definition of Investor Put Triggering Event for purposes of the Indenture does not necessarily afford protection for the holders of the Notes in the event of some highly leveraged transactions, including certain acquisitions, mergers, refinancings, restructurings or other recapitalizations, although these types of transactions could increase our indebtedness or otherwise affect our capital structure or credit ratings. The definition of Investor Put Triggering Event for purposes of the Indenture also includes a phrase relating to the sale of “all or substantially all” of our assets. Although there is a limited body of case law interpreting the phrase “substantially all,” there is no precise established definition under applicable law. Accordingly, our obligation to make an offer to purchase the Notes, and the ability of a holder of the Notes to require us to purchase its Notes pursuant to the offer as a result of a highly leveraged transaction or a sale of less than all of our assets may be uncertain.

We may not be able to repurchase or redeem the Notes upon the reduction of capital contribution or dividend distributions relating to a Pledge Entity or upon the failure to satisfy the LTV Ratio requirements.

If we reduce or otherwise adversely affect the capital contribution of any Pledge Entity, or make any dividend distribution in relation to the capital contribution of any Pledge Entity, we are required to offer to repurchase the Notes having a principal amount equal to the reduction amount of the capital contribution or the distribution amount of such dividends, as applicable, from holders at 101% and accrued and unpaid interest within 10 days of such reduction or such dividend distribution. In addition, we are required to cause the LTV Ratio not to exceed 80% when the LTV Ratio is tested on a semi-annual basis, and if the LTV Ratio is not satisfied, we are required to redeem the Notes at 101% and accrued and unpaid interest or pledge the shares of one or more additional subsidiaries such that after taking into account of such redemption or additional pledge, the LTV Ratio will no longer exceed 80%. We cannot assure you that we will be able to repurchase or redeem the Notes upon the capital reduction or dividend distribution relating to the Pledge Entities, nor can we promise that we will be able to maintain the LTV Ratio or have sufficient funds to redeem the Notes or successfully procure additional liens such that the LTV Ratio would not exceed 80% in manners as prescribed in this offering memorandum and the Indenture. Such a failure to redeem or repurchase the Notes would constitute a default under the Indenture.

The terms of the Notes permit us to make investments in Unrestricted Subsidiaries and minority owned joint ventures

In light of land prices, the capital intensive nature of land acquisitions, sizes of projects, the competitive landscape and other factors, we may from time to time consider developing properties jointly with other property developers. As a result, we may need to make investments in joint ventures (including joint ventures in which we may own less than a 50% equity interest) and such joint ventures may or may not be Restricted Subsidiaries under the Indenture governing the Notes. Although the Indenture governing the Notes restricts us and our Restricted Subsidiaries from making investments in Unrestricted Subsidiaries or joint ventures, these restrictions are subject to important exceptions and qualifications. See the section entitled “Limitation on Restricted Payments” and the definition of “Permitted Investment” in “Description of the Notes.” As of the date of this offering memorandum, we have designated a number of Unrestricted Subsidiaries. See “Corporate Structure.”

We may be able to redeem the Notes in whole at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest in the event we are required to pay additional amounts because we are treated as a PRC “resident enterprise”

We may be considered a PRC tax resident enterprise, as described above in “Risk Factors — Risks Relating to the PRC — We may be deemed a PRC resident enterprise under the PRC Enterprise Income Tax Law and be subject to PRC taxation on our worldwide income, and payments on, or proceeds from a sale of, the Notes may be subject to PRC tax.” In the event we are treated as a PRC “resident enterprise” under the EIT Law, we may be required to withhold PRC tax on interest paid to certain of our non-resident investors. In such case, we will, subject to certain exceptions, be required to pay such additional amounts as will result in receipt by a holder of a Note of such amounts as would have been received by the holder had no such withholding been required. As described under “Description of the Notes — Redemption for Taxation Reasons,” in the event we are required to pay additional amounts as a result of certain changes in specified tax laws or certain other circumstances, including any change or interpretation or the stating of an official position that results in our being required to withhold tax on interest payments as a result of our being treated as a PRC “resident enterprise,” we may redeem the Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest.

Notes are subject to optional redemption by us

As set forth in “Description of the Notes—Optional Redemption,” the Notes may be redeemed at our option in the circumstances set out therein. An optional redemption feature is likely to limit the market value of the Notes. During any period when we 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 may also be the case prior to any redemption period.

We may be expected to redeem Notes when the current financing cost is lower than the interest rate on the Notes. In such case, a Noteholder 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 reinvest so at a significantly lower rate. It may therefore cause a negative financial impact on the Noteholders. Potential investors should consider reinvestment risk in light of other investments available at that time.

The insolvency laws of the Cayman Islands and the PRC and other local insolvency laws applicable to us may differ from those of any other jurisdiction with which holders of the Notes are familiar

Because we are incorporated under the laws of the Cayman Islands, an insolvency proceeding relating to us, even if brought in the United States, would likely involve Cayman Islands insolvency laws, the procedural and substantive provisions of which may differ from comparable provisions of the laws of the United States or other jurisdictions with which holders of the Notes are familiar. In addition, the Subsidiary Guarantors are incorporated in Hong Kong and the insolvency laws of Hong Kong may also differ from the laws of the United States or other jurisdictions with which the holders of the Notes are familiar.

We conduct substantially all of our business operations through PRC-incorporated subsidiaries in the PRC. We and our Subsidiary Guarantors, as equity holders in our PRC subsidiaries, are necessarily subject to the bankruptcy and insolvency laws of the PRC in a bankruptcy or insolvency proceeding involving any of such PRC subsidiaries. Any JV Subsidiary Guarantors which become equity holders of our PRC Subsidiaries would also be subject to such laws. The PRC laws and regulations relating to bankruptcy and insolvency and the legal proceedings in that regard may significantly differ from those of the United States and other jurisdictions with which the holders of the Notes are familiar. You should analyze the risks and uncertainties in the insolvency laws of the Cayman Islands, Hong Kong, the PRC and other jurisdictions applicable to us carefully before you invest in our Notes.

We may be unable to obtain and remit foreign exchange

Our ability to satisfy our obligations under the Notes depends solely upon the ability of our subsidiaries in the PRC to obtain and remit sufficient foreign currency to pay dividends to us and to repay shareholder loans. Our PRC subsidiaries must present certain documents to SAFE, its authorized branch or the designated foreign exchange bank, for approval before they can obtain and remit foreign currencies out of the PRC (including, in the case of dividends, evidence that the relevant PRC taxes have been paid and, in the case of shareholder loans, evidence of the registration of the loan with SAFE). Prior to payment of interest and principal on any shareholder loan we make to our PRC subsidiaries, the relevant PRC subsidiary must also present evidence of payment of the 10% (or 7% if the interest is paid to a Hong Kong resident, subject to approval by local tax authorities) withholding tax on the interest payable in respect of such shareholder loan. If any PRC subsidiary for any reason fails to satisfy any of the PRC legal requirements for remitting foreign currency payments, the PRC subsidiary will be unable to pay us dividends or interest and principal on our existing shareholder loans, which may affect our ability to satisfy our obligations under the Notes.

If we are unable to comply with the restrictions and covenants in our debt agreements or the Indenture, there could be a default under the terms of these agreements or the Indenture, which could cause repayment of our debt to be accelerated

If we are unable to comply with the restrictions and covenants in the Indenture or our current or future debt obligations and other agreements, there could be a default under the terms of these agreements. In the event of a default under these agreements, the holders of the debt could terminate their commitments to lend to us, accelerate repayment of the debt and declare all amounts borrowed due and payable or terminate the agreements, as the case may be. Furthermore, some of our debt agreements, including the Indenture, contain cross-acceleration or cross-default provisions. As a result, our default under one debt agreement may cause the acceleration of repayment of debt, including the Notes, or result in a default under our other debt agreements, including the Indenture. If any of these events occur, we cannot assure you that our assets and cash flow would be sufficient to repay in full all of our indebtedness, or that we would be able to find alternative financing. Even if we could obtain alternative financing, we cannot assure you that it would be on terms that are favorable or acceptable to us.

Our operations are restricted by the terms of the Notes and other debt agreements, which could limit our ability to plan for or react to market conditions or meet our capital needs, which could increase your credit risk

The Indenture and other debt agreements include a number of significant restrictive covenants. These covenants restrict, among other things, our ability, and the ability of our Restricted Subsidiaries, to:

- incur or guarantee additional indebtedness and issue disqualified or preferred stock;
- declare dividends on their capital stock or purchase or redeem capital stock;
- make investments or other specified restricted payments;
- issue or sell capital stock of Restricted Subsidiaries;
- guarantee indebtedness of Restricted Subsidiaries;
- dispose of the Collateral and the Properties;
- reduce the capital contribution or distribute dividends with respect to the Collateral;
- sell assets;

- create liens;
- enter into sale and leaseback transactions;
- enter into agreements that restrict the Restricted Subsidiaries' ability to pay dividends,
- transfer assets or make intercompany loans;
- enter into transactions with shareholders or affiliates; and
- effect a consolidation, merger, restructuring or changes in shareholding in subsidiaries.

These covenants could limit our ability to plan for or react to market conditions or to meet our capital needs. Our ability to comply with these covenants may be affected by events beyond our control, and we may have to curtail some of our operations and growth plans to maintain compliance.

A trading market for the Notes may not develop, and there are restrictions on resale of the Notes

The Notes are a new issue of securities for which there is currently no trading market. Although application will be made to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Notes by way of debt issues to Professional Investors only as described in this offering memorandum and application will be made to the SGX-ST for the listing and quotation of the Notes on the SGX-ST, we cannot assure you that we will obtain or be able to maintain a listing on the Hong Kong Stock Exchange and the SGX-ST, respectively, or that, if listed, a liquid trading market will develop. We have been advised that the Initial Purchaser intends to make a market in the Notes, but the Initial Purchaser is not obligated to do so and may discontinue such market making activity at any time without notice. In addition, the Notes are being offered pursuant to exemptions from registration under the U.S. Securities Act and, as a result, you will only be able to resell your Notes in transactions that have been registered under the U.S. Securities Act or in transactions not subject to or exempt from registration under the U.S. Securities Act. See the section entitled "Transfer Restrictions." We cannot predict whether an active trading market for the Notes will develop or be sustained.

The rating assigned to the Notes may be lowered or withdrawn in the future

The Notes are expected to be assigned a rating of "B-" by Fitch Ratings Ltd.. The rating addresses our ability to perform our obligations under the terms of the Notes and credit risks in determining the likelihood that payments will be made when due under the Notes. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time. We cannot assure you that such rating will be confirmed or it will remain for any given period of time or that a rating will not be lowered or withdrawn entirely by the relevant rating agency if in its judgment circumstances in the future so warrant (such circumstances include, for example, if we or our Restricted Subsidiaries were to incur substantial additional indebtedness to the extent permitted under the Indenture). For example, in September 2018, Standard & Poor's Ratings Services lowered our corporate rating from "B" to "B-" with a negative outlook and lowered the ratings on our outstanding series of senior notes from "B-" to "CCC". In March 2020, Fitch Ratings Ltd. revised outlook on us to negative and affirmed the ratings on our outstanding series of senior notes at "B-". We have no obligation to inform holders of the Notes of any such revision, downgrade or withdrawal. A suspension, reduction or withdrawal at any time of the rating assigned to the Notes may materially and adversely affect the market price of the Notes.

The liquidity and price of the Notes following the offering may be volatile

The price and trading volume of the Notes may be highly volatile. Factors such as variations in our revenues, earnings and cash flows and proposals for new investments, strategic alliances and/or acquisitions, interest rates, fluctuations in price for comparable companies and government regulations

and changes thereof applicable to our industry and general economic conditions nationally or internationally could cause the price of the Notes to change. Any such developments may result in large and sudden changes in the trading volume and price of the Notes. We cannot assure you that these developments will not occur in the future.

The Notes may not be a suitable investment for all investors

Each potential investor in the Notes must determine the suitability of an investment in the Notes in light of its own circumstances. In particular, each potential investor should consider, either on its own or with the help of its financial and other professional advisors, whether it: (i) has sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this offering memorandum; (ii) has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact such investment will have on its overall investment portfolio; (iii) has sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments is different from the currency in which the potential investor's financial activities are principally denominated; (iv) understands thoroughly the terms of the Notes and is familiar with the behavior of any relevant indices and financial markets; and (v) is able to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

There may be less publicly available information about us than is available in certain other jurisdictions

There may be less publicly available information about companies listed in Hong Kong than is regularly made available by public companies in certain other countries. In addition, our financial statements are prepared and presented in accordance with IFRS, which differs in certain significant respects from GAAP in other jurisdictions, which might be material to the financial information contained in this offering memorandum. We have not prepared a reconciliation of our consolidated financial statements and related footnotes between IFRS and generally accepted accounting principles in other jurisdictions. You should consult your own professional advisors for an understanding of the differences between IFRS and generally accepted accounting principles in other jurisdictions and how those differences might affect the financial information contained in this offering memorandum.

We will follow the applicable corporate disclosure standards for debt securities listed on the Hong Kong Stock Exchange and the SGX-ST, and such standards may be different from those applicable to debt securities listed in certain other countries

We will be subject to reporting obligations in respect of the Notes listed on the Hong Kong Stock Exchange. We will also be subject to reporting obligations in respect of the Notes to be listed on the SGX-ST. The disclosure standards imposed by the Hong Kong Stock Exchange and the SGX-ST may be different than those imposed by securities exchanges in other countries or regions such as the United States. As a result, the level of information that is available may not correspond to what investors in the Notes are accustomed to.

The Notes will initially be held in book-entry form, and therefore you must rely on the procedures of the relevant clearing systems to exercise any rights and remedies

The Notes will initially only be issued in global certificate form and held through Euroclear and Clearstream. Interests in the Notes represented by the global certificate will trade in book entry form only, and notes in definitive registered form, or definitive registered notes, will be issued in exchange for book-entry interests only in very limited circumstances. Owners of book entry interests will not be considered owners or holders of the Notes. The nominee of the common depositary for Euroclear and Clearstream will be the sole registered holder of the global certificate representing the Notes. Payments of principal, interest and other amounts owing on or in respect of the global certificate representing the

Notes will be made to the Paying Agent, which will make payments to Euroclear and Clearstream. Thereafter, these payments will be credited to accounts of participants that hold book-entry interests in the global certificate representing the Notes and credited by such participants to indirect participants. After payment to the nominee of the common depository for Euroclear and Clearstream, we will have no responsibility or liability for the payment of interest, principal or other amounts to the owners of book entry interests. Accordingly, if you own a book-entry interest, you must rely on the procedures of Euroclear and Clearstream or, if you are not a participant in Euroclear and Clearstream, on the procedures of the participant through which you own your interest, to exercise any rights and obligations of Noteholder under the Indenture.

Unlike the holders of the Notes themselves, owners of book-entry interests will not have the direct right to act upon our solicitations for consents, requests for waivers or other actions from Noteholders. Instead, if you own a book-entry interest, you will be permitted to act only to the extent you have received appropriate proxies to do so from Euroclear and Clearstream. The procedures implemented for the granting of such proxies may not be sufficient to enable you to vote on a timely basis.

Similarly, upon the occurrence of an Event of Default under the Indenture, unless and until definitive registered notes are issued in respect of all book-entry interests, if you own a book-entry interest, you will be restricted to acting through Euroclear and Clearstream. The procedures to be implemented through Euroclear and Clearstream may not be adequate to ensure the timely exercise of rights under the Notes.

We are allowed under the Indenture to make investments in Unrestricted Subsidiaries and minority owned joint ventures, the terms of the Notes also give us enhanced flexibility to pay dividends and repurchase our shares

In light of land prices, project size and other factors, we may from time to time consider developing properties jointly with other PRC property developers. As a result, we may need to make investments in joint ventures (including joint ventures in which we may own less than a 50% equity interest) and such joint ventures may or may not be Restricted Subsidiaries under the Indenture. Although the Indenture generally restricts us and our Restricted Subsidiaries from making investments in Unrestricted Subsidiaries or minority joint ventures, these restrictions are subject to important exceptions and qualifications. In particular, under the Indenture, we are not required to satisfy the Fixed Charge Coverage Ratio for making investments in minority joint ventures up to 5% of the Total Assets. See clause (18) in the definition of “Permitted Investment” in “Description of the Notes—Definitions” and “—Certain Covenants—Limitation on Restricted Payments.” In addition, we are not required to satisfy the Fixed Charge Coverage Ratio for the declaration and payment by us in 2017 of a dividend in respect of the Company’s Capital Stock in an amount not to exceed 35% of our consolidated net profit for the financial year of 2016. See “Description of the Notes—Certain Covenants—Limitations on Restricted Payments.”

The terms of the Notes permit us to buy out minority interests in certain non-wholly owned Restricted Subsidiaries, and such purchases will not constitute Restricted Payments

The Indenture governing the Notes permit us to redeem, repurchase or otherwise acquire minority interests in our Restricted Subsidiaries held by Independent Third Parties and such purchases will not constitute Restricted Payments, subject to certain conditions. See “Description of the Notes—Certain Covenants—Limitation on Restricted Payments.” Even though such transactions would potentially increase our ownership interests in the relevant Restricted Subsidiary, we may pay substantial amounts of consideration in these transactions, whether in cash or other assets, which may adversely impact our business, results of operations and financial condition.

Certain of our offshore Restricted Subsidiaries will be permitted to not provide a Subsidiary Guarantee or a JV Subsidiary Guarantee

According to the terms of the Notes, certain offshore Restricted Subsidiaries will not be required to deliver a Subsidiary Guarantee or a JV Subsidiary Guarantee, if such offshore Restricted Subsidiaries' consolidated assets in the aggregate do not exceed 15% of our Total Assets. See "The Subsidiary Guarantees and the JV Subsidiary Guarantees" section in the "Description of the Notes." As a result of these exemptions, certain of our offshore Restricted Subsidiaries, which may constitute substantial revenue sources and/or hold substantial assets, may not be Guaranteeing the Notes.

Certain facts and other statistics with respect to the PRC, the PRC economy and the PRC real estate industry in this offering memorandum are derived from various official government sources and third-party sources and may not be reliable

Certain facts and other statistics in this offering memorandum relating to the PRC, the PRC economy and the PRC real estate industry have been derived from various official government publications and third-party sources. However, we cannot guarantee the quality or reliability of these sources. They have not been prepared or independently verified by us or any of our affiliates or advisors and, therefore, we make no representation as to the accuracy of such facts and statistics. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the facts and statistics herein may be inaccurate or may not be comparable to facts and statistics produced for other economies. As a result, prospective investors should consider carefully how much weight or importance they should attach to or place on such facts or statistics.

RISKS RELATING TO THE SUBSIDIARY GUARANTEES, THE JV SUBSIDIARY GUARANTEES, THE COLLATERAL AND THE PERSONAL GUARANTEES

Our initial Subsidiary Guarantors do not currently have significant operations and certain Subsidiary Guarantees may in some cases be replaced by limited-recourse guarantees

We conduct substantially all of our business operations through our PRC subsidiaries but none of our current PRC subsidiaries will provide a Subsidiary Guarantee or JV Subsidiary Guarantee either upon issuance of the Notes or at any time thereafter. Therefore, almost all of our revenue and income (as shown in our consolidated financial information included elsewhere in this offering memorandum) are attributed to our PRC operating subsidiaries and any contribution from direct operations of the Subsidiary Guarantors (or JV Subsidiary Guarantors) are immaterial. No future subsidiaries that are organized under the laws of the PRC will provide a Subsidiary Guarantee or JV Subsidiary Guarantee at any time in the future. In addition, certain of our offshore subsidiaries will not be required to guarantee the Notes if the consolidated assets of these subsidiaries do not exceed 15% of our total assets. As a result, the Notes will be effectively subordinated to all the debt and other obligations, including contingent obligations and trade payables, of our PRC subsidiaries and other Non-Guarantor Subsidiaries.

Unrestricted Subsidiaries will not be required to guarantee the Notes, and future Restricted Subsidiaries will not be required to guarantee the Notes if the consolidated assets of all Restricted Subsidiaries organized outside the PRC that are not Subsidiary Guarantors or JV Subsidiary Guarantors do not account for more than 15% of our total assets. The initial Subsidiary Guarantors that will guarantee the Notes do not have significant operations. We cannot assure you that the initial Subsidiary Guarantors or any subsidiaries that may become Subsidiary Guarantors or JV Subsidiary Guarantors in the future will have the funds necessary to satisfy our financial obligations under the Notes if we are unable to do so.

Under the terms of the Notes, a Subsidiary Guarantor may be able to release its Subsidiary Guarantee if it sells or issues no less than 20% of the Capital Stock of such Subsidiary Guarantor to a third party, as long as the consolidated assets of all Restricted Subsidiaries organized outside the PRC (other than Exempted Subsidiaries and Listed Subsidiaries) that are not Subsidiary Guarantors or JV Subsidiary Guarantors do not account for more than 15% of our total assets.

Moreover, under the terms of the Notes, a Subsidiary Guarantee required to be provided by a subsidiary of the Company under the terms of the Notes may be replaced by a limited-recourse JV Subsidiary Guarantee following the sale or issuance to, or purchase from, a third party of an equity interest in such subsidiary or its direct or indirect majority shareholders (subject to the satisfaction of certain conditions). Recovery under the JV Subsidiary Guarantees provided by a JV Subsidiary Guarantor and its shareholders and subsidiaries are limited to an amount equal to our proportional interest in the issued share capital of such JV Subsidiary Guarantor multiplied by the fair market value of the total assets in such JV Subsidiary Guarantor and its subsidiaries, on a consolidated basis, as of the date of the last fiscal year-end of the Company. As a result, the amount that may be recovered by the Trustee pursuant to a JV Subsidiary Guarantee (compared with a Subsidiary Guarantee) is reduced, which in turn may affect your ability to recover any amounts due under the Notes.

The Subsidiary Guarantees or JV Subsidiary Guarantees may be challenged under applicable insolvency or fraudulent transfer laws, which could impair the enforceability of the Subsidiary Guarantees or JV Subsidiary Guarantees

Under bankruptcy laws, fraudulent transfer laws, insolvency laws in the British Virgin Islands or bankruptcy law, fraudulent transfer laws, insolvency or unfair preference or similar laws in Hong Kong and other jurisdictions where future Subsidiary Guarantors or JV Subsidiary Guarantors (if any) may be established or where insolvency proceeding may be commenced with respect to any such Subsidiary Guarantor or JV Subsidiary Guarantor, a guarantee could be voided, or claims in respect of a guarantee could be subordinated to all other debts of that guarantor if, among other things, the guarantor, at the time it incurred the indebtedness evidenced by, or when it gives, its guarantee:

For Subsidiary Guarantors or JV Subsidiary Guarantors (if any) incorporated in the British Virgin Islands:

- incurred the debt with the intent to defraud creditors (whenever the transaction took place and irrespective of insolvency); or
- either (i) put the beneficiary of the guarantee in a position which, in the event of the guarantor's insolvency, would be better than the position the beneficiary would have been in had the guarantee not been given or (ii) received no consideration, or received consideration in money or money's worth that is significantly less than the consideration supplied by the guarantor (although in either case a guarantee will only be voidable if it (i) was entered into at a time when the guarantor was insolvent or if it became insolvent as a consequence of doing so, insolvent in this context meaning that the guarantor is unable to pay its debts as they fall due, and (ii) it was given within the six-month, or, if the guarantee and beneficiary are connected entities, two-year, period preceding the commencement of liquidation).

For Subsidiary Guarantors or JV Subsidiary Guarantors (if any) incorporated in other jurisdictions:

- incurred the debt with the intent to hinder, delay or defraud creditors or was influenced by a desire to put the beneficiary of the guarantee in a position which, in the event of the guarantor's insolvency, would be better than the position the beneficiary would have been in had the guarantee not been given;
- received less than the reasonably equivalent value or fair consideration for the incurrence of such guarantee;

- was insolvent or rendered insolvent by reason of such incurrence;
- was engaged in a business or transaction for which the guarantor's remaining assets constituted unreasonably small capital; or
- intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they mature.

The measure of insolvency for purposes of the foregoing will vary depending on the laws of the jurisdiction which are being applied. Generally, however, a guarantor would be considered insolvent at a particular time if it were unable to pay its debts as they fell due or if the sum of its debts was then greater than all of its property at a fair valuation or if the present fair saleable value of its assets was then less than the amount that would be required to pay its probable liabilities in respect of its existing debt as it became absolute and matured. We cannot assure you that such limitation will be effective in preserving the enforceability of any of the Subsidiary Guarantees or JV Subsidiary Guarantees (if any). In addition, a guarantee may be subject to review under applicable insolvency or fraudulent transfer laws in certain jurisdictions or subject to a lawsuit by or on behalf of creditors of the guarantors. In such case, the analysis set forth above would generally apply, except that the guarantee could also be subject to the claim that, since the guarantee was not incurred for the benefit of the guarantor, the obligations of the guarantor thereunder were incurred for less than the reasonably equivalent value or fair consideration, and, as a result, such guarantee would be rendered void.

In an attempt to limit the applicability of insolvency and fraudulent transfer laws in certain jurisdictions, the obligations of the Subsidiary Guarantors or JV Subsidiary Guarantors (if any) under the Subsidiary Guarantees or JV Subsidiary Guarantees (as the case may be) will be limited to the maximum amount that can be guaranteed by the applicable Subsidiary Guarantor or JV Subsidiary Guarantor (if any) without rendering the guarantee, as it relates to such Subsidiary Guarantor or JV Subsidiary Guarantor (if any), voidable under such applicable insolvency or fraudulent transfer laws.

If a court voided a Subsidiary Guarantee or JV Subsidiary Guarantee (if any), subordinated such guarantee to other indebtedness of the Subsidiary Guarantor or JV Subsidiary Guarantor (if any) or held the Subsidiary Guarantee or JV Subsidiary Guarantee (if any) unenforceable for any other reason, holders of the Notes would cease to have a claim against that Subsidiary Guarantor or JV Subsidiary Guarantor (if any) based upon such guarantee, would be subject to the prior payment of all liabilities (including trade payables) of such Subsidiary Guarantor or JV Subsidiary Guarantor, and would solely be creditors of us and any Subsidiary Guarantor or JV Subsidiary Guarantor (if any) whose guarantee was not voided or held unenforceable. We cannot assure you that, in such an event, after providing for all prior claims, there would be sufficient assets to satisfy the claims of the holders of the Notes.

The pledges of certain Collateral may in some circumstances be voidable

The pledges of certain Collateral may in some circumstances be voidable. The pledge of the Collateral may be voidable as a preference under insolvency or fraudulent transfer or similar laws of the PRC after the creation of the pledges. In addition, the pledge of certain Collateral may be voided based on the analysis set forth under the section entitled “— The Subsidiary Guarantees or JV Subsidiary Guarantees may be challenged under applicable insolvency or fraudulent transfer laws, which could impair the enforceability of the Subsidiary Guarantees or JV Subsidiary Guarantees” above. If the pledges of the Collateral were to be voided for any reason, holders of the Notes would have only an unsecured claim against us and the Pledgor.

The value of the Collateral is unlikely to be sufficient to satisfy our obligations under the Notes and/or the Subsidiary Guarantee

The ability of the Collateral Agent, on behalf of the Trustee, to foreclose on the Collateral upon the occurrence of an Event of Default or otherwise, will be subject in certain instances to perfection and priority issues. Although procedures will be undertaken to support the validity and enforceability of the security interests, we cannot assure you that the Collateral Agent, the Trustee or holders of the Notes will be able to enforce the security interest.

Under the Indenture, we will be obligated to maintain the value of the Collateral and to cause the LTV Ratio not to exceed 80% at certain point of time. However, we are not required to maintain the LTV Ratio below certain level for the most part of the term of the Notes, and the value of the Collateral in the event of a liquidation will depend upon market and economic conditions, the availability of buyers and similar factors. We will also appoint an eligible appraiser to conduct appraisal of the valuation of the assets held by Pledge Entities on a fiscal semi-annually basis during the existence of the Notes. However, there is no guarantee that the book value provided by the appraiser will be realized in full in the event of the enforcement of the Share Charges and the investors shall not rely on such valuation in determining the value of the assets of the Pledge Entities or the value of the Collateral in the event of a liquidation. Accordingly, there can be no assurance that the proceeds of any sale of the Collateral following an acceleration of the Notes would be sufficient to satisfy, or would not be substantially less than, amounts due and payable on the Notes or the Subsidiary Guarantee of the Subsidiary Guarantor Pledgors. By their nature, some or all of the Collateral may be illiquid and may have no readily ascertainable market value. Likewise, there can be no assurance that the Collateral will be saleable or, if saleable, that there will not be substantial delays in its liquidation.

In addition, as of the date of this offering memorandum, the properties and the shares of one or more Pledge Entities are subject to certain existing liens for the benefit of certain other secured creditors of our subsidiaries which may adversely affect the value of the Collateral until the relevant indebtedness for which such liens are created are repaid in full or such liens are released. Moreover, as of the date of this offering memorandum, a property of the Pledge Entity B is subject to statutory lien pursuant to a court order imposed by the Intermediate People's Court of Nantong Municipality, Jiangsu Province, in connection with a legal dispute with our joint venture partner. Although we do not believe the plaintiff's claim has any factual or legal basis, such lien may adversely affect the value of the Collateral until such case is dismissed by the relevant court during the legal proceeding. The terms of the Notes will not restrict our ability to market and sell certain real estate development projects held by the Pledge Entity A in the ordinary course of business or limit the use of the proceeds from such sales. We are also permitted to create certain liens on the Pledge Entities in certain circumstances as further described in "Description of the Notes".

It may be difficult to realize the value of the Collateral

The security interest of the Collateral Agent may be subject to practical problems generally associated with the realization of security interests in the Collateral. For example, the Collateral Agent may need to obtain the consent of a third-party or governmental agency to obtain or enforce a security interest in a license or contract or to otherwise dispose of the Collateral. There can be no assurance that the Collateral Agent will be able to obtain any such consent. If the Collateral Agent exercises its rights to foreclose on certain assets, transferring required government approvals to, or obtaining new approvals by, a purchaser of assets may require governmental proceedings with consequent delays.

In addition, the Collateral Agent may need to evaluate the impact of potential liabilities before determining to foreclose on the Collateral. In this regard, the Collateral Agent may decline to foreclose on the Collateral or exercise remedies available if it does not receive security and/or prefunding and/or indemnification to its satisfaction from the holders of the Notes.

The right of the pledge under the Share Charges will not be effectively created until the completion of the SAMR Registration and the Hong Kong Registration

Under the Indenture, we will procure each of the Pledgors to file with the State Administration for Market Regulation or its competent local counterpart (the “SAMR”) the relevant Share Charges and complete the SAMR Registration and related obligations within certain period of times as specified in this offering memorandum. Jingtian & Gongcheng, our PRC counsel, advise us that, although the Share Charges shall be immediately effective upon execution and constitute legal, valid and binding obligations of the Pledgors upon the due execution and delivery of the Share Charges, the right of the pledge under the Share Charges will not be effectively created until the completion of the SAMR Registration under the PRC law. We will undertake to complete the SAMR Registration within 30 business days in PRC after the issuance of the Notes. However, there is no assurance that we will be able to successfully complete the SAMR Registration and obtain the relevant records in accordance with the Indenture and the Share Charges. If the SAMR Registration is not completed within the prescribed time period, such non-completion would constitute a default in the performance of our obligations in the Indenture.

Jingtian & Gongcheng LLP, our Hong Kong counsel, advise us that each Pledgor shall register and fill the relevant Share Charge under section 335 of the Companies Ordinance (Cap. 622) of Hong Kong (the “Hong Kong Registration”). Under section 337 of the Companies Ordinance (Cap. 622), if the Pledgor does not comply with the requirements under section 335 of the Companies Ordinance (Cap. 622), subject to a relevant extension of time under section 334 of the Companies Ordinance (Cap. 622), the relevant Share Charge will become void at the end of that period as against any liquidator and creditor of such Pledgor so far as any security on the relevant company’s undertaking or property is conferred by such Share Charge. We will covenant in the Indenture that we will comply with all laws and regulations in all material aspects, including the compliance of the Companies Ordinance (Cap. 622), however, if the Hong Kong Registration is not completed timely, the Share Charges may be void and such non-completion would constitute a default in the performance of our obligations in the Indenture.

There is no guarantee that Regulatory Approvals with respect to the Personal Guarantees can be obtained and applicable laws and policies may limit the enforceability of the Personal Guarantees

Each of the Personal Guarantors is obliged to use his/her best efforts to obtain the Regulatory Approvals to the extent required with respect to the Personal Guarantees. There can be no assurance that such Regulatory Approvals will be obtained in a timely manner or at all. In the event that the Regulatory Approvals are not obtained, there may be logistical hurdles at the time of remittance of funds (if any cross-border payment is to be made by the Personal Guarantors under the Personal Guarantees) as domestic banks may require evidence of applicable Regulatory Approvals in connection with Personal Guarantees in order to effect such remittance, although this does not affect the validity of the Personal Guarantees themselves. In addition, the Trustee is unable to provide any substantive assistance to the holders in the event of the enforcement of the Personal Guarantees due to its internal policy.

Additionally, a personal guarantee may not be enforceable under certain circumstances under applicable laws. For example, the enforceability of a personal guarantee may be affected by the death, incarceration, indictment, legal incapacity or bankruptcy of a personal guarantor who is an individual. In addition, according to Article 696 of PRC Civil Code, if a Noteholder assigns its Notes, in whole or in part, without notifying the guarantor, such assignment is not binding on the guarantor. It may be difficult or impossible to notify the guarantor of every transfer of the Notes after the issuance of the Notes. Failure to notify the guarantor when the Notes have been wholly or partially assigned may make such assignment not binding on the guarantor so that the Personal Guarantees may not be enforceable by the transferee, the Collateral Agent or the Trustee. Furthermore, each of the Personal Guarantors is a national of the PRC and a substantial portion of his/her assets are located within the PRC. As a result, it may be difficult for investors to effect service of process outside of the PRC upon each of the Personal Guarantors or to enforce against such Personal Guarantor judgments obtained outside of the PRC. Even if each of the Personal Guarantees is enforceable, there can be no assurance that the Personal Guarantors will have sufficient funds to discharge his/her outstanding payment obligations to the holders of the Notes. Further, any claim against the Personal Guarantors under the Personal Guarantees will be an unsecured claim and may rank lower in priority to any claims by secured third party creditors of such Personal Guarantors.

EXCHANGE RATE INFORMATION

CHINA

The PBOC sets and publishes daily a base exchange rate with reference primarily to the supply and demand of Renminbi against a basket of currencies in the market during the prior day. PBOC also takes into account other factors, such as the general conditions existing in the international foreign exchange markets. From 1994 to July 20, 2005, the conversion of Renminbi into foreign currencies, including Hong Kong dollars and U.S. dollars, was based on rates set daily by PBOC on the basis of the previous day's inter-bank foreign exchange market rates and then current exchange rates in the world financial markets. During this period, the official exchange rate for the conversion of Renminbi to U.S. dollars remained generally stable. Although the PRC government introduced policies in 1996 to reduce restrictions on the convertibility of Renminbi into foreign currencies for current account items, conversion of Renminbi into foreign currencies for capital items, such as foreign direct investment, loan principals and securities trading, still requires the approval of SAFE and other relevant authorities. On July 21, 2005, the PRC government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of the Renminbi appreciated by approximately 2% against the U.S. dollar. The PRC government has since made and in the future may make further adjustments to the exchange rate system.

On May 18, 2007, PBOC enlarged, the floating band for the trading prices in the inter-bank foreign exchange market of the Renminbi against the U.S. dollar from 0.3% to 0.5% around the central parity rate, effective on May 21, 2007. This allows the Renminbi to fluctuate against the U.S. dollar by up to 0.5% above or below the central parity rate published by PBOC. The floating band was further widened to 1.0% on April 16, 2012 and 2.0% on March 17, 2014. The PBOC announces the closing price of a foreign currency traded against the Renminbi in the inter-bank foreign exchange market after the closing of the market on each working day, and makes it the central parity for trading against the Renminbi on the following working day. Effective since August 11, 2015, market makers are required to quote their central parity rates for Renminbi against U.S. dollar to the China Foreign Exchange Trade System daily before the market opens by reference to the closing rate of the PRC inter-bank foreign exchange market on the previous trading day in conjunction with the demand and supply conditions in the foreign exchange markets and exchange rate movements of major currencies. PBOC has further authorized the China Foreign Exchange Trade System to announce its central parity rate for Renminbi against the U.S. dollar through a weighted averaging of the quotes from the market makers after removing the highest quote and the lowest quote. PBOC announces the closing price of a foreign currency traded against the Renminbi in the inter-bank foreign exchange market after the closing of the market on each working day, and makes it the central parity for trading against the Renminbi on the following working day. The International Monetary Fund announced on September 30, 2016 that, effective on October 1, 2016, Renminbi will be added to its Special Drawing Rights currency basket. The PRC government may adopt further reforms of its exchange rate system, including making the Renminbi freely convertible in the future.

The following table sets forth the noon buying rate for U.S. dollars in New York City for cable transfer in Renminbi as certified for customs purposes by the Federal Reserve Bank of New York for the periods indicated:

| Period | Noon buying rate | | | |
|-----------------|------------------|------------------------|--------|--------|
| | Period end | Average ⁽¹⁾ | High | Low |
| | | (RMB per US\$1.00) | | |
| 2015 | 6.4778 | 6.2869 | 6.4896 | 6.1870 |
| 2016 | 6.9430 | 6.6400 | 6.9580 | 6.4480 |
| 2017 | 6.5063 | 6.7530 | 6.9575 | 6.4773 |
| 2018 | 6.8755 | 6.6292 | 6.9737 | 6.2649 |
| 2019 | 6.9618 | 6.9014 | 7.1786 | 6.6822 |
| 2020 | | | | |
| July | 6.9744 | 7.0041 | 7.0703 | 6.9744 |
| August | 6.8647 | 6.9310 | 6.9799 | 6.8647 |
| September | 6.7896 | 6.8106 | 6.8474 | 6.7529 |
| October | 6.6919 | 6.7254 | 6.7898 | 6.6503 |
| November | 6.5760 | 6.6029 | 6.6899 | 6.5556 |
| December | 6.5250 | 6.5390 | 6.5705 | 6.5208 |

Source: Federal Reserve H.10 Statistical Release

Note:

- (1) Determined by averaging the rates on the last business day of each month during the relevant year, except for monthly average rates, which are determined by averaging the daily rates during the respective months.

USE OF PROCEEDS

We estimate that the net proceeds from this offering, after deducting the underwriting discounts and commissions and other estimated expenses payable by us in connection with this offering, will be approximately US\$ million, which we plan to use for the refinancing of the 2019 Notes with the remainder for general corporate purposes.

We may adjust the foregoing plans in response to changing market conditions and, thus, reallocate the use of the proceeds. Pending application of the net proceeds of this offering, we intend to invest the net proceeds in Temporary Cash Investments (as defined under “Description of the Notes — Definitions”).

CAPITALIZATION AND INDEBTEDNESS

The following table sets forth our capitalization and indebtedness as of June 30, 2020 on an actual basis and on an adjusted basis after giving effect to the issuance of the Notes. The as-adjusted information below is illustrative only and does not take into account any changes in our cash, borrowings, equity and capitalization after June 30, 2020 nor does it give effect to the Concurrent Exchange Offer and issue of any Exchange Notes. The following table should be read in conjunction with the selected consolidated financial information and the consolidated financial statements and related notes included in this offering memorandum.

| | As of June 30, 2020 | | | |
|--|---------------------|-----------|--------------------|------|
| | Actual | | As adjusted | |
| | RMB (unaudited) | US\$ | RMB (unaudited) | US\$ |
| | (in thousands) | | | |
| Cash and cash equivalents ⁽¹⁾ | 1,856,392 | 262,755 | | |
| Borrowings: ⁽²⁾ | | | | |
| Bank and other borrowings — secured | | | | |
| within one year | 6,048,341 | 856,087 | | |
| after one year | 17,026,083 | 2,409,886 | | |
| Corporate bonds | | | | |
| within one year | 88,723 | 12,558 | | |
| after one year | 500,000 | 70,770 | | |
| Senior notes ⁽³⁾ | | | | |
| within one year | 1,139,760 | 161,323 | | |
| after one year | 2,831,146 | 400,723 | | |
| Notes to be issued | — | — | | |
| Total borrowings | 27,634,053 | 3,911,346 | | |
| Total equity | 18,732,526 | 2,651,417 | | |
| Total capitalization ⁽⁴⁾ | 39,089,755 | 5,532,796 | | |

Note:

- (1) Cash and cash equivalents excludes restricted bank deposits of RMB1,098.2 million (US\$155.4 million).
- (2) Long-term borrowings does not include capital and other commitments. As of June 30, 2020, our consolidated capital and other commitments were RMB9,736,934 million and we had RMB8,801.2 million of outstanding guarantees in respect of the mortgages of our customers. See the sections entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Indebtedness and Contingent Liabilities — Contingent Liabilities” and “— Contractual Obligations and Capital Commitments.”
- (3) We redeemed the 2019 Private Placement Notes upon maturity in January 2021, which is not reflected in the table above.
- (4) Total capitalization represents the sum of bank and other borrowings — secured after one year, corporate bonds after one year, senior notes after one year and notes to be issued and total equity.

We have, since June 30, 2020, in the ordinary course of business, entered into additional financial arrangements to finance our property development, to re-finance our short-term debt and for general corporate purposes. Subsequent to June 30, 2020 and as of November 30, 2020, we incurred additional material PRC bank loans, commercial mortgage-backed securities, trust and other financing arrangements in the aggregate amount of RMB1,980.0 million (US\$280.3 million), and we repaid PRC bank loans, trust financings and corporate bonds in the aggregate amount of RMB2,568.9 million (US\$363.6 million). For details of these additional indebtedness, see the section entitled “Description of Other Material Indebtedness.” These additional indebtedness are not reflected in the table above.

The aggregate principal amount of the Exchange Notes and Notes to be issued pursuant to the Concurrent Exchange Offer and this offering is US\$.

Except as otherwise disclosed in this offering memorandum, there has been no material adverse change in our capitalization and indebtedness since June 30, 2020.

SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

The following table presents our summary financial data. The summary consolidated statement of profit and loss and other comprehensive income data for the years ended December 31, 2017, 2018 and 2019 and the summary consolidated statement of financial position data as of December 31, 2017, 2018 and 2019 set forth below (except for EBITDA data) have been derived from our audited consolidated financial statements for such years and as of such dates, as audited by Deloitte Touche Tohmatsu, Hong Kong Certified Public Accountants, and included elsewhere in this offering memorandum. The summary condensed consolidated statement of profit or loss and other comprehensive income data for the six months ended June 30, 2019 and 2020 and the summary condensed consolidated statement of financial position data as of June 30, 2020 set forth below (except for EBITDA data) have been derived from our unaudited condensed consolidated interim financial statements for the six months ended June 30, 2020, as reviewed by Deloitte Touche Tohmatsu, Hong Kong Certified Public Accountants, included elsewhere in this offering memorandum. Our financial statements have been prepared and presented in accordance with the IFRS, which differ in certain respects from generally accepted accounting principles in other jurisdictions. The summary financial data below should be read in conjunction with the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and the notes to those statements included elsewhere in this offering memorandum.

Summary Consolidated Statement of Profit or Loss and Other Comprehensive Income Data

| | Year ended December 31, | | | | Six months ended June 30, | | |
|---|------------------------------------|------------------|------------------|----------------|---------------------------|--------------------|---------------|
| | 2017 | 2018 | 2019 | 2019 | 2019 | 2020 | 2020 |
| | RMB (audited) | RMB (audited) | RMB (audited) | US\$ | RMB (unaudited) | RMB (unaudited) | US\$ |
| | (in thousands, except percentages) | | | | | | |
| Revenue | 6,787,415 | 6,612,485 | 8,093,176 | 1,145,515 | 3,774,912 | 3,322,365 | 470,250 |
| Cost of sales and services | (3,618,543) | (4,013,283) | (5,954,455) | (842,798) | (2,700,246) | (2,450,965) | (346,912) |
| Gross profit | 3,168,872 | 2,599,202 | 2,138,721 | 302,716 | 1,074,666 | 871,400 | 123,339 |
| Other gains and losses | 161,185 | 67,364 | 4,856 | 687 | (17,993) | (43,687) | (6,184) |
| Impairment losses under expected credit loss model, net of reversal | — | — | (27,213) | (3,852) | — | (5,178) | (733) |
| Other income | 88,241 | 159,267 | 176,326 | 24,957 | 76,110 | 111,855 | 15,832 |
| Change in fair value of investment properties | 955,743 | 907,791 | 1,061,366 | 150,227 | 531,751 | 238,363 | 33,738 |
| Share of results of joint ventures | (936) | (11,939) | (19,786) | (2,801) | (5,992) | (8,088) | (1,145) |
| Share of results of associates | (6,014) | (10,905) | (565) | (80) | (5,364) | (1,247) | (177) |
| Distribution and selling expenses | (194,915) | (206,799) | (305,948) | (43,304) | (164,006) | (128,337) | (18,165) |
| Administrative expenses | (360,684) | (507,815) | (556,802) | (78,810) | (268,730) | (243,894) | (34,521) |
| Other expenses | (45,676) | (53,252) | (20,115) | (2,847) | (21,977) | (5,666) | (802) |
| Finance costs | (198,683) | (245,446) | (404,677) | (57,278) | (201,971) | (220,466) | (31,205) |
| Profit before tax | 3,567,133 | 2,697,468 | 2,046,163 | 289,616 | 996,494 | 565,055 | 79,978 |
| Income tax expenses | (1,527,622) | (1,128,237) | (826,550) | (116,991) | (426,647) | (284,032) | (40,202) |
| Profit for the year/period | <u>2,039,511</u> | <u>1,569,231</u> | <u>1,219,613</u> | <u>172,625</u> | <u>569,847</u> | <u>281,023</u> | <u>39,776</u> |
| Other comprehensive income (expense) | | | | | | | |
| Items that will not be reclassified to profit or loss: | | | | | | | |
| Gain on revaluation of properties | 324,949 | — | — | — | — | — | — |

| | Year ended December 31, | | | | Six months ended June 30, | | |
|--|------------------------------------|------------------|------------------|----------------|---------------------------|----------------|---------------|
| | 2017 | 2018 | 2019 | 2019 | 2019 | 2020 | 2020 |
| | RMB | RMB | RMB | US\$ | RMB | RMB | US\$ |
| | (audited) | (audited) | (audited) | | (unaudited) | (unaudited) | |
| | (in thousands, except percentages) | | | | | | |
| Changes in fair value of equity instruments at fair value through other comprehensive income | — | (9,593) | 3,893 | 551 | 3,893 | — | — |
| Income tax relating to items that will not be reclassified to profit or loss | (81,237) | 2,398 | (973) | (138) | (973) | — | — |
| Other comprehensive income (expense) for the year/period | 243,712 | (7,195) | 2,920 | 413 | 2,920 | — | — |
| Total comprehensive income for the year/period | 2,283,223 | 1,562,036 | 1,222,533 | 173,038 | 572,767 | 281,023 | 39,776 |
| Profit for the year/period attributable to: | | | | | | | |
| Owners of the Company | 1,749,841 | 1,008,784 | 859,764 | 121,692 | 428,576 | 71,306 | 10,093 |
| Non-controlling interests | 289,670 | 560,447 | 359,849 | 50,933 | 141,271 | 209,717 | 29,684 |
| | <u>2,039,511</u> | <u>1,569,231</u> | <u>1,219,613</u> | <u>172,625</u> | <u>569,847</u> | <u>281,023</u> | <u>39,776</u> |
| Total comprehensive income for the year/period attributable to: | | | | | | | |
| Owners of the Company | 1,944,811 | 1,002,237 | 862,421 | 122,068 | 431,233 | 71,306 | 10,093 |
| Non-controlling interests | 338,412 | 559,799 | 360,112 | 50,971 | 141,534 | 209,717 | 29,684 |
| | <u>2,283,223</u> | <u>1,562,036</u> | <u>1,222,533</u> | <u>173,038</u> | <u>572,767</u> | <u>281,023</u> | <u>39,776</u> |
| Other Financial Data (unaudited): | | | | | | | |
| EBITDA ⁽¹⁾ | 2,646,480 | 1,958,853 | 1,361,342 | 192,686 | 683,561 | 541,303 | 76,617 |
| EBITDA margin ⁽²⁾ | 39.0% | 29.6% | 16.8% | 16.8% | 18.1% | 16.3% | 16.3% |

Notes:

- (1) EBITDA for any period consists of gross profit less selling and administrative expenses, plus depreciation and amortization. EBITDA is not a standard measure under IFRS. 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, net income or any other measure of financial performance or as an indicator of our operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. EBITDA does not account for taxes, interest expense or other non-operating cash expenses. In evaluating EBITDA, we believe that investors should consider, among other things, the components of EBITDA such as sales and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. We have included EBITDA because we believe it is a useful supplement to cash flow data as a measure of our performance and our ability to generate cash flow from operations to cover debt service and taxes. EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare our EBITDA to EBITDA presented by other companies because not all companies use the same definition. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Non-GAAP Financial Measures" for a reconciliation of our profit for the year under IFRS to our definition of EBITDA. Investors should also note that EBITDA as presented herein may be calculated differently from Consolidated EBITDA as defined and used in the Indenture governing the Notes. See "Description of the Notes — Definitions" for a description of the manner in which Consolidated EBITDA is defined for purposes of the Indenture governing the Notes.
- (2) EBITDA margin is calculated by dividing EBITDA by revenue.

Summary Consolidated Statement of Financial Position Data

| | As of December 31, | | | | As of June 30, | |
|---|--------------------|-------------------|-------------------|------------------|--------------------|------------------|
| | 2017 | 2018 | 2019 | 2019 | 2020 | 2020 |
| | RMB (audited) | RMB (audited) | RMB (audited) | US\$ | RMB (unaudited) | US\$ |
| | (in thousands) | | | | | |
| Non-current assets | | | | | | |
| Investment properties | 18,308,269 | 19,545,072 | 21,150,000 | 2,993,588 | 20,996,000 | 2,971,791 |
| Property, plant and equipment | 850,258 | 1,687,653 | 1,885,865 | 266,927 | 1,985,294 | 281,000 |
| Right-of-use assets | — | — | 279,824 | 39,607 | 274,205 | 38,811 |
| Other non-current assets | 1,053,778 | 1,409,257 | 1,566,745 | 221,758 | 1,572,511 | 222,575 |
| Interest in joint ventures | 9,064 | 24,375 | 30,089 | 4,259 | 25,371 | 3,591 |
| Interest in associates | 269,246 | 565 | 5,000 | 708 | 7,800 | 1,104 |
| Available-for-sale investments | 165,192 | — | — | — | — | — |
| Equity instruments at fair value through other comprehensive income | — | 220,307 | 32,400 | 4,586 | 32,400 | 4,586 |
| Prepaid lease payments | 281,438 | 275,466 | — | — | — | — |
| Deposit paid for acquisition of a subsidiary | — | — | 169,620 | 24,008 | 210,770 | 29,833 |
| Deposit paid for acquisition of property, plant and equipment | 120,000 | — | — | — | — | — |
| Deferred tax assets | 404,235 | 510,513 | 536,185 | 75,892 | 714,418 | 101,119 |
| Amounts due from related parties | — | — | — | — | 2,033,669 | 287,847 |
| Restricted bank deposits | 105,720 | 462,980 | 719,615 | 101,855 | 475,158 | 67,254 |
| Value added tax and taxation recoverable | 1,422,585 | 1,680,675 | 1,666,559 | 235,886 | 1,837,909 | 260,139 |
| | <u>22,989,785</u> | <u>25,816,863</u> | <u>28,041,902</u> | <u>3,969,074</u> | <u>30,165,505</u> | <u>4,269,650</u> |
| Current assets | | | | | | |
| Inventories | 61 | 67 | 61 | 9 | 95 | 13 |
| Deposits paid for land acquisition | 605,010 | 830,301 | 369,301 | 52,271 | 388,296 | 54,960 |
| Properties under development for sale | 23,626,222 | 36,371,398 | 37,333,243 | 5,284,178 | 38,849,863 | 5,498,841 |
| Properties held for sale | 3,408,156 | 4,372,328 | 5,361,690 | 758,898 | 4,820,050 | 682,234 |
| Trade and other receivables, deposits and prepayments | 1,082,946 | 2,296,480 | 2,811,721 | 397,973 | 2,458,673 | 348,003 |
| Contract assets | — | 1,223,570 | 1,442,134 | 204,121 | 1,551,003 | 219,530 |
| Contract cost | — | 36,321 | 76,919 | 10,887 | 90,509 | 12,811 |
| Amounts due from customers for contract work | 1,191,139 | — | — | — | — | — |
| Value added tax and taxation recoverable | 500,477 | 634,706 | 791,981 | 112,098 | 792,721 | 112,202 |
| Amounts due from related parties | 2,928,197 | 2,588,873 | 4,440,856 | 628,562 | 2,835,109 | 401,284 |
| Financial assets at fair value through profit or loss | 97 | — | — | — | — | — |
| Restricted bank deposits | 620,761 | 479,151 | 959,615 | 135,825 | 623,067 | 88,190 |
| Cash and bank balances | 1,591,506 | 1,030,143 | 536,926 | 75,997 | 1,855,676 | 262,654 |
| | <u>35,554,572</u> | <u>49,863,338</u> | <u>54,124,447</u> | <u>7,660,818</u> | <u>54,265,062</u> | <u>7,680,721</u> |
| Total assets classified as for sale | — | — | — | — | 631,360 | 89,363 |
| | <u>35,554,572</u> | <u>49,863,338</u> | <u>54,124,447</u> | <u>7,660,818</u> | <u>54,896,422</u> | <u>7,770,084</u> |

| | As of December 31, | | | | As of June 30, | |
|---|--------------------|-------------------|-------------------|------------------|--------------------|------------------|
| | 2017 | 2018 | 2019 | 2019 | 2020 | 2020 |
| | RMB (audited) | RMB (audited) | RMB (audited) | US\$ | RMB (unaudited) | US\$ |
| | (in thousands) | | | | | |
| Current liabilities | | | | | | |
| Trade and other payables | 5,585,713 | 6,757,015 | 6,439,342 | 911,430 | 6,360,921 | 900,330 |
| Lease liabilities | — | — | 1,600 | 227 | 1,666 | 236 |
| Deposits received from sale of properties | 3,308,339 | — | — | — | — | — |
| Contract liabilities | — | 11,208,252 | 17,332,702 | 2,453,285 | 19,144,946 | 2,709,791 |
| Amounts due to related parties . . . | 893,229 | 4,265,166 | 5,322,007 | 753,281 | 5,671,096 | 802,692 |
| Tax payable | 2,492,186 | 2,874,075 | 2,948,144 | 417,283 | 3,125,305 | 442,359 |
| Bank and trust borrowings | 11,625,399 | 9,037,963 | 6,317,710 | 894,214 | 6,048,341 | 856,087 |
| Corporate bonds | 2,992,645 | 998,765 | 65,787 | 9,312 | 88,723 | 12,558 |
| Senior Notes | — | 3,768,364 | 1,734,974 | 245,570 | 1,139,760 | 161,323 |
| | <u>26,897,511</u> | <u>38,909,600</u> | <u>40,162,266</u> | <u>5,684,600</u> | <u>41,580,758</u> | <u>5,885,374</u> |
| Liabilities associated with assets classified as held for sale | — | — | — | — | 482,180 | 68,248 |
| | <u>26,897,511</u> | <u>38,909,600</u> | <u>40,162,266</u> | <u>5,684,600</u> | <u>42,062,938</u> | <u>5,953,623</u> |
| Net current assets | <u>8,657,061</u> | <u>10,953,738</u> | <u>13,962,181</u> | <u>1,976,219</u> | <u>12,833,484</u> | <u>1,816,462</u> |
| Total assets less current liabilities . . | <u>31,646,846</u> | <u>36,770,601</u> | <u>42,004,083</u> | <u>5,945,292</u> | <u>42,998,989</u> | <u>6,086,112</u> |
| Non-current liabilities | | | | | | |
| Rental deposits received | 89,393 | 106,312 | 122,063 | 17,277 | 118,062 | 16,711 |
| Lease liabilities | — | — | 2,974 | 421 | 2,175 | 308 |
| Bank and trust borrowings | 12,601,665 | 14,261,021 | 15,748,894 | 2,229,111 | 17,026,083 | 2,409,886 |
| Corporate bonds | 997,006 | 54,670 | 500,000 | 70,770 | 500,000 | 70,770 |
| Senior notes | 1,940,948 | 677,419 | 3,076,320 | 435,425 | 2,831,146 | 400,723 |
| Deferred tax liabilities | 2,425,425 | 3,840,352 | 3,925,302 | 555,590 | 3,788,997 | 536,298 |
| | <u>18,054,437</u> | <u>18,939,774</u> | <u>23,375,553</u> | <u>3,308,595</u> | <u>24,266,463</u> | <u>3,434,695</u> |
| Net assets | <u>13,592,409</u> | <u>17,830,827</u> | <u>18,628,530</u> | <u>2,636,697</u> | <u>18,732,526</u> | <u>2,651,417</u> |
| Capital and reserves | | | | | | |
| Share capital | 3,519 | 3,520 | 3,520 | 498 | 3,520 | 498 |
| Reserves | <u>10,898,692</u> | <u>11,899,088</u> | <u>12,541,509</u> | <u>1,775,135</u> | <u>12,462,815</u> | <u>1,763,997</u> |
| Equity attributable to owners of the Company | 10,902,211 | 11,902,608 | 12,545,029 | 1,775,634 | 12,466,335 | 1,764,495 |
| Non-controlling interests | 2,690,198 | 5,928,219 | 6,083,501 | 861,064 | 6,266,191 | 886,922 |
| Total equity | <u>13,592,409</u> | <u>17,830,827</u> | <u>18,628,530</u> | <u>2,636,698</u> | <u>18,732,526</u> | <u>2,651,417</u> |

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the section entitled "Selected Consolidated Financial and Other Data" and our consolidated financial statements, including the notes thereto, included elsewhere in this offering memorandum. All significant intra-group transactions, balances and unrealized gains on intra-group transactions have been eliminated. Our consolidated financial statements have been prepared in accordance with IFRS, which may differ in material aspects from generally accepted accounting principles in other jurisdictions.

OVERVIEW

We are a fast growing residential property developer with commercial property operations. We focus on developing residential projects and large-scale mixed-use complex projects in the PRC. We also selectively retain the ownership of a substantial amount of self-developed commercial properties with strategic value to generate stable and recurring rental income. In addition, we undertake primary land development projects in order to access potentially available land reserves for property development and diversify our sources of income.

Founded in Guangdong Province, we commenced our property development operations in the late 1990s and since then have significantly grown our business in Beijing and successfully expanded into other selected cities with rapid growth in China, including, amongst others, Haikou and Wanning in Hainan Province, Shantou and Foshan in the Pearl River Delta region, Shenyang in Liaoning Province, Zhengzhou in Henan Province, Langfang in Hebei Province, Xi'an in Shaanxi Province, Shenzhen in Guangdong Province, Suzhou and Qidong in Jiangsu Province. As a result, we have established a strategic nationwide coverage that is centered around Beijing and the Pearl River Delta region and covers a number of selected major areas with rapid economic growth in China. We plan to continue to deepen the operation in cities where we have strategic presence, focused on the key cities in the four major regions, being the Beijing Tianjin Hebei region, the Yangtze River Delta region, the Pearl River Delta region and the economic corridor of the BRI. In view of the increased policy and financial pressure in first-tier cities including Beijing, Shanghai, Guangzhou and Shenzhen, we will strictly control risks, remain cautious in countercyclical land acquisition and avoid acquisition of any land that we believe is overpriced. At present, the core districts in second-tier cities are capable of competing with first-tier cities, and the outbound expansion trend of second-tier cities has emerged with obvious urban spillover effects, new districts in second-tier cities are good for investment. Meanwhile, the demand for low-density products for improved residential purpose is gradually increasing in areas surrounding second-tier cities, giving rise to development opportunities in the future to some extent. In respect of third- and fourth-tier cities, we select land with strong supporting resources, such as the government, schools, hospitals, subways, core commercial areas and other regional strong resources, with a view to avoiding the risks arising from limited market capability faced by third- and fourth-tier cities.

We have acquired substantial and strategically located land reserves at low costs to support our property development operations. As of June 30, 2020, we had land reserves with a total GFA of 15.0 million sq.m. in 21 cities in the PRC, comprising a total GFA of 1.1 million sq.m. completed but remaining unsold, a total GFA of 7.0 million sq.m. under development and a total GFA of 6.9 million sq.m. held for future development. We implement a standardized and streamlined process for developing property projects, supported by a comprehensive information technology system and a proprietary bank of product designs, which, together with our two-tier management structure and centralized procurement practice, enables us to enhance our operational efficiency while effectively managing our risks.

For the years ended December 31, 2017, 2018 and 2019, our contracted sales were RMB14,876.7 million, RMB21,912.8 million and RMB23,915.4 million (US\$3,385.0 million), respectively, representing a CAGR of 26.8%. For the six months ended June 30, 2020, our contracted sales were approximately RMB7,478.8 million (US\$1,058.6 million), representing a decrease of 41.7% as compared to the six months ended June 30, 2019. The contracted GFA was 375,746 sq.m., representing a decrease of 37.9% as compared to the six months ended June 30, 2019.

For the years ended December 31, 2017, 2018 and 2019 and for the six months ended June 30, 2019 and 2020, our revenue was RMB6,787.4 million, RMB6,612.5 million, RMB8,093.2 million (US\$1,145.5 million), RMB3,774.9 million and RMB3,322.4 million (US\$470.3 million), respectively, and our total comprehensive income for the same periods was RMB2,283.2 million, RMB1,562.0 million, RMB1,222.5 million (US\$173.0 million), RMB572.8 million and RMB281.0 million (US\$39.8 million), respectively. Revenue from property development for the year ended December 31, 2018 was RMB5,924.6 million, representing a decrease of 7.2% as compared to the year ended December 31, 2017. This decrease was primarily due to the uneven pace of completion and delivery for the year ended December 31, 2018. The increase in revenue from 2018 to 2019 was primarily due to the increased revenue from property development. Revenue from property development for the year ended December 31, 2019 was RMB7,256.7 million, representing an increase of 22.5% as compared to the year ended December 31, 2018. This increase was primarily due to the increase of property development GFA delivered for the year ended December 31, 2019. Revenue from property development for the six months ended June 30, 2020 was RMB2,915.4 million (US\$412.6 million), representing a decrease of 14.5% as compared to the six months ended June 30, 2019. This decrease was primarily due to the uneven pace of completion and delivery for the period.

KEY FACTORS AFFECTING OUR PERFORMANCE

Our business, results of operations and financial condition are affected by a number of factors, many of which are beyond our control. Some of the key factors include the following:

THE PRC ECONOMY AND REGULATORY MEASURES FOR THE REAL ESTATE INDUSTRY IN THE PRC

We derive substantially all of our revenue from operations relating to the residential and commercial property markets in the PRC. The conditions of the residential and commercial property markets in the PRC are significantly impacted by PRC governmental policies and regulations, including those that have (i) increased taxes on title transfers and property ownership, (ii) increased down payment requirements for residential mortgages, (iii) tightened credit on financing and mortgage loans, and (iv) restricted multiple home ownership and investment in residential property outside one's province of residence. Our business and results of operations may be adversely affected by these policies and regulations.

From time to time, the PRC government adjusts its regulation of the property market depending on macroeconomic conditions to achieve policy goals, such as preventing the overheating of the property market or stimulating the property market during and after an economic downturn. From time to time, we adjust our marketing and pricing strategies in response to the changing market conditions. The performance of the property market and our business will continue to be affected by a number of macroeconomic factors, including the growth of the PRC economy, interest rates, Renminbi exchange rate and the political, economic and regulatory environment in the PRC.

Ability to acquire suitable land for future development

Our continued growth will depend largely on our ability to acquire quality land at prices that can yield reasonable returns. We believe we have sufficient land reserves for development for the next four to five years. As the PRC economy continues to grow and demand for commercial and residential properties remains relatively strong, we expect competition among developers for land reserves suitable for property development to intensify in the cities in which we operate. In addition, the public tender, auction and listing-for-sale practices for granting state-owned land use rights are also likely to increase competition for land acquisition and development costs.

Product mix and geographical coverage of our properties

We offer a wide range of residential properties that target the specific preferences and needs of middle- to upper-class customers. Our residential properties include high-rise and mid-rise apartments, townhouses, multi-layer garden houses, stand-alone houses and siheyuan (四合院). In addition, we also develop commercial properties primarily including retail outlets, shopping malls, offices, hotels, specialized markets and SOHO apartments. Our property development projects comprise residential

projects and large-scale mixed-use complex projects that typically consist of a combination of residential properties with a variety of commercial properties. Moreover, other than growing our business in Beijing, we have also successfully expanded into other selected cities with rapid growth in the PRC, including, amongst others, Haikou and Wanning in Hainan Province, Shantou and Foshan in the Pearl River Delta region, Shenyang in Liaoning Province, Zhengzhou in Henan Province, Langfang in Hebei Province, Xi'an in Shaanxi Province, Shenzhen in Guangdong Province, Suzhou, Qidong in Jiangsu Province and Ezhou in Hubei Province. The prices and gross margins of the properties developed by us are affected by a number of factors, including the types, features and locations of the properties. As a result, our results of operations and cash flows generated from operating activities may vary from period to period. In addition, our results of operations and cash flows generated from operating activities may also vary depending on prevailing market conditions when we sell our properties. The cash flows generated from our investment properties depend on local rental rates, which in turn depend on local supply and demand conditions, as well as the types of the investment properties.

Timing of property development

The number of property projects that we undertake during any particular period is primarily limited by land supply and the capital available for land acquisitions and construction. Developing property projects may take many months or even years before the commencement of pre-sale or completion and delivery. We do not recognize revenue with respect to a property project until it has been completed, sold and delivered to the customers. Therefore, the revenue from property development we can recognize in a particular period may also largely depend on the timing of the completion and delivery of our projects. Delays in construction, regulatory approval and other processes can adversely affect the timetable of our projects, which in turn will affect the recognition of our revenue. Although we strategically schedule projects so they will be at different stages of development during any particular period, due to the aforementioned limitations, timing differences and uncertainties, our results of operations have fluctuated in the past and are likely to continue to fluctuate in the future.

Land and construction costs

Our results of operations are significantly affected by land and construction costs, which constitute the largest items in our cost of sales and services. Over the years, land premiums have generally been increasing in the PRC. It is widely expected that land premiums will continue to increase as the PRC economy continues to grow and demolition and resettlement costs continue to increase. In addition, we directly purchase a portion of major construction materials and equipment, especially those affecting product quality such as elevators, doors, windows, stone materials and interior decoration materials, while our contractors are responsible for procuring other materials such as cement, steel and cables. As a result, prolonged increases in the prices of construction materials will prompt contractors to change their fee quotes for new contracts, thus increasing our cost of sales and services and overall project cost. If we cannot sell our properties at prices sufficient to cover all our increased costs and expenses, we will not be able to achieve our target profit margins, and our profitability will be adversely impacted.

Access to capital and cost of financing

Bank borrowings are the most important source of funding for our property developments. As of December 31, 2017 and 2018, 2019 and June 30, 2020, bank borrowings (excluding corporate bonds and senior notes) accounted for 80.6%, 60.0%, 71.3% and 82.9%, respectively, of our bank and other borrowings. As commercial banks in the PRC link the interest rates on their loans to the PBOC benchmark interest rates, any increase in such benchmark interest rates will increase our financing costs. The proportion of our other borrowings from non-bank financial institutions in our bank and other borrowings increased from 19.4% as of December 31, 2017, to 40.0% as of December 31, 2018, decreased to 28.7% as of December 31, 2019 and decreased to 17.1% as of June 30, 2020. While drawdowns on bank loans usually depend on actual construction progress, drawdowns on trust financings may be made in full in one or multiple installments as agreed with the relevant trust companies. See the section entitled "Description of Other Material Indebtedness — Trust Financings" in this offering memorandum for more details. While trust financings do not usually link their interest rates to the PBOC benchmark interest rates, they typically charge rates higher than those charged by commercial banks. For further information, see the section entitled "Risk Factors — Risks Relating to Our Business — Our total interest expenses for our borrowings are subject to changes in interest rates" in this offering

memorandum. Our access to capital and cost of financing are also affected by restrictions imposed from time to time by the PRC government and by banks on lending for property development. See the sections entitled “Risk Factors — Risks Relating to Our Business — We may not always be able to acquire land reserves that are suitable for development” and “Risk Factors — Risks Relating to the Real Estate Industry in the PRC — The PRC property market is heavily regulated and subject to frequent introduction of new regulations which may adversely affect property developers” of this offering memorandum for details.

We have issued corporate bonds and senior notes as alternative sources of capital. In November 2015, we issued domestic corporate bonds with an aggregate principal amount of RMB2 billion, bearing an interest rate of 7.25% *per annum*. In December 2015, we issued domestic corporate bonds with an aggregate principal amount of RMB1 billion, bearing an interest rate of 7.47% *per annum*. In September 2016, we issued domestic corporate bonds with an aggregate principal amount of RMB1 billion, bearing an interest rate of 5.30% *per annum*. In March 2017, we issued senior notes with an aggregate principal amount of US\$300 million, bearing an interest rate of 7.00% *per annum*, which have been fully redeemed in March 2020. In March 2018, we issued senior notes due 2019 with an aggregate principal amount of US\$250 million, bearing an interest rate of 10.2% *per annum*, which have been fully redeemed upon maturity. In June 2018, we issued senior notes due 2020 with an aggregate principal amount of US\$100 million, bearing an interest rate of 10.0% *per annum*, which have been fully redeemed in June 2020. In February and March 2019, we issued senior notes due 2022 with an aggregate principal amount of US\$455 million bearing an interest rate of 13.5% *per annum*. In April 2019, we issued US\$100 million senior notes due 2021 bearing an interest rate of 15% *per annum*, which have been fully redeemed in January 2021.

Primary land development

Apart from engaging in our property development projects, we also actively undertake primary land development projects as a strategic business in order to access potentially available land reserves and diversify our sources of income. See the section entitled “Business — Primary Land Development” of this offering memorandum for details. After completion of a primary land development project, we will engage a third-party valuer selected by the government to review the total development costs we reported and the government will generally compensate us in the amount of total assessed development costs determined by the government based on the independent valuation conducted by such valuer and a reward of a specific percentage of the total assessed development costs and make such payment in a lump sum.

Development costs of primary land development primarily comprise resettlement compensation and sub-contracting charges for demolition and resettlement work. Revenue generated from our primary land development project during a specific period is recognized by multiplying the total contract revenue estimated by us by the proportion that costs incurred during the period bear to the estimated total costs of the contract. The actual costs are recognized as profit and loss during the relevant period. Our directors estimate contract revenue and recoverable costs based on the latest available budgets of each primary land development project and the prevailing market conditions. Our estimation of the contract revenue and recoverable costs is subject to final approval by the government. The final amounts approved by the government may not be the same as the amounts estimated by us. When the compensation determined by the government differs from our estimate, we will change our estimated contract revenue and record such change as a change in accounting estimate. The compensation determined by the government will be used in the determination of the amount of revenue recognized as profit or loss in (i) the period when the government makes such determination and (ii) the subsequent periods of the project if the project has not been completed at the time when the government makes such determination.

GFAs and rental rates of our investment properties

We selectively retain the ownership of a substantial amount of self-developed commercial properties with strategic value to generate stable and recurring rental income. Our results of operations may fluctuate depending on the GFA and rental rates of our investment properties. The rental rates of our properties are affected by a number of factors, including locations of our commercial properties, local supply and demand of commercial properties and market rental rates of commercial properties in the local market.

Fair value of investment properties

We have designated certain completed properties as investment properties, as we intend to hold these properties on a long-term basis to generate stable and recurring rental income and retain capital appreciation. Our investment properties are recorded as non-current assets in our consolidated statements of financial position at fair value as of each balance sheet date. Gains or losses arising from changes in the fair value of our investment properties are accounted for as gains or losses upon revaluation in our consolidated statements of income, which affect our profits. The valuation of property involves the exercise of professional judgment and requires the use of certain bases and assumptions. The fair value of our investment properties may have been higher or lower if a different set of bases or assumptions is used. However, an upward change in the fair value, which reflects unrealized capital gain of our investment properties at the relevant statement of financial position dates and not profit generated from day-to-day rentals of the investment properties, largely depends on the prevailing property markets and does not generate cash inflow to us until such investment properties are disposed of. The amounts of fair value adjustments have changed, and may continue to change, based on the conditions of the property market in the PRC. We recognized gains from fair value changes in our investment properties in the past, but we cannot assure you that similar levels of fair value gains can be sustained in the future.

LAT

Our property developments are subject to LAT with respect to the appreciated value of the related land and improvements on such land. LAT applies to both domestic and foreign investors in real estate development in the PRC, and is levied at progressive rates ranging from 30% to 60% of the appreciation of land value. Provisions for LAT are made upon recognition of revenue. As of June 30, 2020, we had made all prepayments and/or full provisions for LAT in compliance with the relevant LAT laws and regulations in the PRC as interpreted and enforced by the relevant local tax authorities. However, the relevant tax authorities may disagree with the basis on which we have calculated our LAT liabilities for provision purposes and the provisions may be insufficient to cover all LAT obligations that tax authorities ultimately impose on us. In addition, On November 10, 2016, SAT issued the Announcement of the State Administration of Taxation on Certain Collection and Administration Issues Concerning Land Value-added Tax after Replacing Business Tax with Value-added Tax (國家稅務總局關於營改增後土地增值稅若干徵管規定的公告[國家稅務總局公告2016年第70號]), which came into effect on the same date. According to the announcement, after replacing business tax with VAT, when a taxpayer transfers real property, the taxable income for land VAT shall be VAT-exclusive. Our financial condition and results of operations may be materially and adversely affected if our LAT liabilities as calculated by the relevant tax authorities are substantially higher than our provisions.

CRITICAL ACCOUNTING POLICIES

The discussion and analysis of our financial condition and operating results are based upon our consolidated financial statements as of and for the years ended December 31, 2017, 2018, 2019 and our unaudited condensed consolidated financial statements as of and for the six months ended June 30, 2019 and 2020, each of which has been prepared in accordance with IFRS. Our reported financial condition and operating results are sensitive to accounting methods, assumptions and estimates that underlie the preparation of the financial statements. We continually evaluate our estimates and assumptions and base them on historical experience and on various other factors that our management believes to be relevant under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results typically differ from these estimates. The estimates and assumptions that may have a significant effect on the carrying amounts of assets and liabilities mainly include those related to property development activities.

The selection of critical accounting policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing our financial statements. We believe that the following critical accounting policies are among those that involve the most significant judgments and estimates used in the preparation of our consolidated financial statements.

Revenue from contracts with customers (upon application of IFRS 15)

We recognize revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognized over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group’s performance as the Group performs;
- the Group’s performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group’s performance does 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.

Otherwise, revenue is recognized at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group’s right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9 since January 1, 2018. In contrast, a receivable represents the Group’s unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group’s obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

Input method

The progress towards complete satisfaction of a performance obligation is measured based on input method, which is to recognize revenue on the basis of the Group’s efforts or inputs to the satisfaction of a performance obligation relative to the total expected inputs to the satisfaction of that performance obligation, that best depict the Group’s performance in transferring control of goods or services.

Existence of significant financing component

In determining the transaction price, the Group adjusts the promised amount of consideration for the effects of the time value of money if the timing of payments agreed (either explicitly or implicitly) provides the customer or the Group with a significant benefit of financing the transfer of goods or services to the customer. In those circumstances, the contract contains a significant financing component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the contract or implied by the payment terms agreed to by the parties to the contract.

For contracts where the period between payment and transfer of the associated goods or services is less than one year, the Group applies the practical expedient of not adjusting the transaction price for any significant financing component.

For advance payments received from customers before the transfer of the associated goods or services in which the Group adjusts for the promised amount of consideration for a significant financing component, the Group applies a discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. The relevant interest expenses during the period between the advance payments were received and the transfer of the associated goods and services are accounted for on the same basis as other borrowing costs.

Incremental costs of obtaining a contract

Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained.

The Group recognizes such costs (e.g. sales commissions) as an asset if it expects to recover these costs. The asset so recognized is subsequently amortized to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate.

The Group applies the practical expedient of expensing all incremental costs to obtain a contract if these costs would otherwise have been fully amortized to profit or loss within one year.

Revenue recognition (prior to January 1, 2018)

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue is recognized when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Property sales

Revenue from the property sales in the ordinary course of business is recognized when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the properties, which is when the construction of relevant properties has been completed, upon delivery, and collectability of related receivables is reasonably assured;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the properties sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Deposits received from purchasers prior to meeting the above criteria for revenue recognition are included in the consolidated statement of financial position under current liabilities.

Revenue from construction contract

Revenue from construction contract is recognized by reference to the recoverable costs incurred during the period plus the fee earned, measured by the proportion that costs incurred to date bear to the estimated total costs of the contract.

When the outcome of a construction contract can be estimated reliably, revenue from fixed price contracts and cost plus contracts is recognized by reference to the recoverable costs incurred during the period plus the fee earned, measured by the proportion that costs incurred to date bear to the estimated total costs of the contract.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognized as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

Where contract costs incurred to date plus recognized profits less recognized losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognized profits less recognized losses, the surplus is shown as amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under trade receivables.

Service income

Service income is recognized when the services are provided.

Interest income

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is calculated using the weighted average method. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Properties under development for sale/Properties held for sale

Properties for/under development which are intended to be sold upon completion of development and properties for sale are classified as current assets. Except for the leasehold land element which is measured at cost model in accordance with the accounting policies of right-of-use assets upon the application of IFRS 16, properties under development and properties held for sale are carried at the lower of cost and net realizable value. Cost is determined on a specific identification basis including allocation of the related development expenditure incurred and where appropriate, borrowing costs capitalized. Net realizable value represents the estimated selling price for the properties less estimated cost to completion and costs necessary to make the sales.

Properties under development for sale are transferred to properties held for sale upon completion.

Transfer from inventories to investment properties carried at fair value

The Group transfers a property from inventories to investment property when there is a change in use to hold the property to earn rentals or/and for capital appreciation rather than for sale in the ordinary course of business, which is evidenced by the inception of an operating lease to another party. Any difference between the fair value of the property at the date of transfer and its previous carrying amount is recognized in profit or loss.

Investment properties

Investment properties are properties held to earn rentals or/and for capital appreciation.

Effective since January 1, 2019, investment properties also include leased properties which are being recognized as right-of-use assets upon application of IFRS 16 and subleased by the Group under operating leases.

Investment properties are measured initially at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values, adjusted to exclude any prepaid or accrued operating lease income. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

Construction costs incurred for investment properties under construction are capitalized as part of the carrying amount of the investment properties under construction.

If an investment property becomes owner-occupied as evidenced by commencement of owner-occupation, the property will be reclassified as property, plant and equipment at its fair value at the date of transfer.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Effective since January 1, 2019, a leased property which is recognized as a right-of-use asset upon application of IFRS 16 is derecognized if the Group as intermediate lessor classifies the sublease as a finance lease. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from profit before tax because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated statement of financial position and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from the initial recognition of assets and liabilities in a transaction (other than in a business combination) that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the liability is settled or the asset realized, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflect the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognizes the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 *Income Taxes* requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognized at initial recognition and over the lease terms due to application of the initial recognition exemption.

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 they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax is recognized in profit or loss, except when it relates to items that are recognized in other comprehensive income or directly in equity, in which case the current and deferred tax is also recognized in other comprehensive income or directly in equity respectively. When current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

In assessing any uncertainty over income tax treatments, the Group considers whether it is probable that the relevant tax authority will accept the uncertain tax treatment used, or proposed to be used by individual group entities in their income tax filings. If it is probable, the current and deferred taxes are determined consistently with the tax treatment in the income tax filings. If it is not probable that the relevant taxation authority will accept an uncertain tax treatment, the effect of each uncertainty is reflected by using either the most likely amount or the expected value.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Effective since January 1, 2019, any specific borrowing that remain outstanding after the related asset is ready for its intended use or sale is included in the general borrowing pool for calculation of capitalization rate on general borrowings. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Leases

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified or arising from business combinations on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Group as a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative standalone price of the lease component and the aggregate stand-alone price of the non-lease components.

Non-lease components are separated from lease component on the basis of their relative stand-alone prices.

As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the consolidated financial statements would not differ materially from individual leases within the portfolio.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of buildings that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets.

Lease payments on short-term lease and leases of low-value assets are recognized as expense on a straight-line basis or another systematic basis over the lease term.

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received; and
- any initial direct costs incurred by the Group.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets that do not meet the definition of investment property or inventory as a separate line item on the consolidated statement of financial position. Right-of-use assets that meet the definition of investment property and inventory are presented within “investment properties”, “properties under development for sale” and “properties held for sale” respectively.

Refundable rental deposits

Refundable rental deposits paid are accounted under IFRS 9 *Financial Instruments* (“IFRS 9”) and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets

Lease liabilities

At the commencement date of a lease, the Group recognizes and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- amounts expected to be payable by the Group under residual value guarantees;

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

- the lease payments change due to changes in market rental rates following a market rent review/expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities and lease incentives from lessor by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group as a lessee (prior to January 1, 2019)

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group's general policy on borrowing costs (see the accounting policy below). Contingent rentals are recognized as expenses in the periods in which they are incurred.

Operating lease payments, including the cost of acquiring land held under operating leases, are recognized as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

Lease incentives relating to operating leases are considered as integral part of lease payments, the aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis.

The Group as lessor (upon application of IFRS 16)

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Amounts due from lessees under finance leases are recognized as receivables at commencement date at amounts equal to net investments in the leases, measured using the interest rate implicit in the respective leases. Initial direct costs (other than those incurred by manufacturer or dealer lessors) are included in the initial measurement of the net investments in the leases. Interest income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognized in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, and such costs are recognized as an expense on a straight-line basis over the lease term except for investment properties measured under fair value model. Upon application of IFRS 16 on January 1, 2019, variable lease payments for operating leases that depend on an index or a rate are estimated and included in the total lease payments to be recognized on a straight-line basis over the lease term. Variable lease payments that do not depend on an index or a rate are recognized as income when they arise.

Rental income which are derived from the Group's ordinary course of business are presented as revenue.

Allocation of consideration to components of a contract

When a contract includes both leases and non-lease components, the Group applies IFRS 15 to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

Refundable rental deposits

Refundable rental deposits received are accounted for under IFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

Lease modification

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than that entity's functional currency (foreign currencies) are recorded in the respective functional currency at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are re-translated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognized in profit or loss in the period in which they arise.

Short-term and other long-term employee benefit

Short-term employee benefits are recognized at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognized as an expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Liabilities recognized in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date. Any changes in the liabilities' carrying amounts resulting from service cost, interest and remeasurements are recognized in profit or loss except to the extent that another IFRS requires or permits their inclusion in the cost of an asset.

Equity-settled share-based payment transactions

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share-based payments reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share-based payments reserve.

When share options are exercised, the amount previously recognized in share-based payments reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognized in share-based payments reserve will be transferred to retained earnings.

When shares granted are vested, the amount previously recognized in share-based payments reserve will be transferred to other reserve.

Property, plant and equipment

Property, plant and equipment, including buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, for qualifying assets, borrowing costs capitalized in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Ownership interests in buildings

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as “right-of-use assets” (upon application of IFRS 16) or “prepaid lease payments” (before application of IFRS 16) in the consolidated statement of financial position except for those that are classified and accounted for as investment properties under the fair value model. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

If a property becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item (including the relevant leasehold land under IFRS 16 or prepaid lease payments under IAS 17) at the date of transfer is recognized in other comprehensive income and accumulated in property revaluation reserve. On the subsequent sale or retirement of the property, the relevant revaluation reserve will be transferred directly to retained earnings.

Depreciation is recognized so as to write off the cost of assets (other than properties under construction) less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately and are carried at costs less accumulated amortization and any accumulated impairment losses. Amortization for intangible assets with finite useful lives is recognized on a straight-line basis over their estimated useful lives. Amortization begins when the intangible asset is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by the management. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognized separately from goodwill and are initially recognized at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at cost less accumulated amortization and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately. Intangible assets acquired in a business combination with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured at the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

Impairment on property, plant and equipment, right-of-use assets, contract costs and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets, intangible assets with finite useful lives and contract costs to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

The recoverable amount of property, plant and equipment, right-of-use assets, and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In addition, the Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, corporate assets are also allocated to individual cash-generating units, when a reasonable and consistent basis of allocation can be identified, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit or a group of cash-generating units) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Financial instruments

Financial assets and financial liabilities are recognized when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15 since January 1, 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss (“FVTPL”)) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of FVTPL are recognized immediately in profit or loss.

The effective interest method is a method of calculating the amortized cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortized cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income (“FVTOCI”):

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application of IFRS9/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which IFRS 3 *Business Combinations* applies.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or

- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortized cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

(i) Amortized cost and interest income

Interest income is recognized using the effective interest method for financial assets measured subsequently at amortized cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the amortized cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

(ii) Equity instruments designated as at FVTOCI

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in the FVTOCI reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained earnings.

Dividends from these investments in equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other income" line item in profit or loss.

(iii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortized cost or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognized in profit or loss. The net gain or loss recognized in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item.

Impairment of financial assets (and other items subject to impairment assessment under IFRS 9)

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including restricted bank deposits, trade receivables arising from contracts with customers, other receivables, deposits, lease receivables, amounts due from related parties and bank balances), and other items (contract assets and financial guarantee contracts) which are subject to impairment under IFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL (“12m ECL”) represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognizes lifetime ECL for trade receivables, contract assets and lease receivables. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognizes lifetime ECL. The assessment of whether lifetime ECL should be recognized is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument’s external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor’s ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor’s ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

For financial guarantee contracts, the date that the Group becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing impairment. The Group considers the changes in the risk that the specified debtor will default on the contract.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- (a) significant financial difficulty of the issuer or the borrower;
- (b) a breach of contract, such as a default or past due event;
- (c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- (e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognized in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition. For a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with IFRS 16 (since January 1, 2019) or IAS 17 (prior to January 1, 2019).

For a financial guarantee contract, the Group is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed. Accordingly, the expected losses is the present value of the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Group expects to receive from the holder, the debtor or any other party.

For ECL on financial guarantee contracts for which the effective interest rate cannot be determined, the Group will apply a discount rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows but only if, and to the extent that, the risks are taken into account by adjusting the discount rate instead of adjusting the cash shortfalls being discounted.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments;
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortized cost of the financial asset.

For financial guarantee contracts, the loss allowances are recognized at the higher of the amount of the loss allowance determined in accordance with IFRS 9; and the amount initially recognized less, where appropriate, cumulative amount of income recognized over the guarantee period.

Except for financial guarantee contracts, the Group recognizes an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables, other receivables and amounts due from related parties, lease receivables and contract assets where the corresponding adjustment is recognized through a loss allowance account.

Classification and subsequent measurement of financial assets (before application of IFRS 9 on January 1, 2018)

The Group's financial assets are classified into financial assets at FVTPL, loans and receivables, and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is (i) held for trading or (ii) it is designated as at FVTPL.

A financial asset is classified as held-for-trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at fair value through profit or loss are measured at fair value, with changes in fair value arising from re-measurement recognized directly in profit or loss in the period in which they arise. The net gain or loss recognized in profit or loss excludes any dividend or interest earned on the financial assets and is included in the “other gains and losses” line item.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from related parties, restricted bank deposits and bank balances and cash) are carried at amortized cost using the effective interest method, less any impairment.

Interest income is recognized by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment loss at the end of the reporting period.

Impairment of financial assets (before application of IFRS 9 on January 1, 2018)

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Default or delinquency in interest and principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial reorganization.

Objective evidence of impairment for a portfolio of receivables could include the Group’s past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets measured at amortized cost, an impairment loss is recognized in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables and lease receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. When a trade receivable or lease receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset measured at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the FVTOCI reserve is not reclassified to profit or loss, but is transferred to retained earnings.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities

All financial liabilities are subsequently measured at amortized cost using the effective interest method.

Financial liabilities at amortized cost

Financial liabilities including trade and other payables, amounts due to related parties, bank and trust borrowings, corporate bonds and senior notes are subsequently measured at amortized cost, using the effective interest method.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument. Financial guarantee contract liabilities are measured initially at their fair values. It is subsequently measured at the higher of:

- the amount of the loss allowance determined in accordance with IFRS 9; and
- the amount initially recognized less, where appropriate, cumulative amortization recognized over the guarantee period.

Derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when the Group's obligations specified in the relevant contract is discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Acquisition of a subsidiary not constitute a business

When the Group acquires a group of assets and liabilities that does not constitute a business, the Group identifies and recognizes the individual identifiable assets acquired and liabilities assumed by allocating purchase price first to financial assets/financial liabilities at the respective fair values, the remaining balance of the purchase price is then allocated to other identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates and joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, and investment in an associate or a joint venture is initially recognized in the consolidated

statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. Changes in net assets of the associate/joint venture other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate or joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognized immediately in profit or loss in the period in which the investment is acquired.

The Group assesses whether there is an objective evidence that the interest in an associate or a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognized is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognized in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognized in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

Interest in joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with IFRSs applicable to the particular assets, liabilities, revenues and expenses.

When a group entity transacts with a joint operation in which a group entity is a joint operator (such as a sale or contribution of assets), the Group is considered to be conducting the transaction with the other parties to the joint operation, and gains and losses resulting from the transactions are recognized in the Group's consolidated financial statements only to the extent of other parties' interests in the joint operation.

When a group entity transacts with a joint operation in which a group entity is a joint operator (such as a purchase of assets), the Group does not recognize its share of the gains and losses until it resells those assets to a third party.

CERTAIN STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Revenue

We derive our revenue primarily from property development and, to a lesser extent, primary land construction and development services, property investment and property management and related services. In the years ended December 31, 2017, 2018, 2019 and for the six months ended June 30, 2019 and 2020, we derived our revenue primarily from property development.

The table below sets forth our revenue by type of business for the periods indicated:

| | Year ended December 31, | | | | | | Six months ended June 30, | | | |
|---|------------------------------------|--------------|------------------|--------------|------------------|--------------|---------------------------|--------------|------------------|--------------|
| | 2017 | | 2018 | | 2019 | | 2019 | | 2020 | |
| | RMB | (%) | RMB | (%) | RMB | (%) | RMB | (%) | RMB | (%) |
| | (in thousands, except percentages) | | | | | | | | | |
| Property development | 6,381,746 | 94.0 | 5,924,612 | 89.6 | 7,256,704 | 89.7 | 3,411,722 | 90.4 | 2,915,435 | 87.8 |
| Primary land construction and development services | 75,095 | 1.1 | 156,451 | 2.4 | 206,262 | 2.5 | 66,477 | 1.8 | 116,418 | 3.5 |
| Property investment | 310,293 | 4.6 | 510,191 | 7.7 | 608,518 | 7.5 | 285,120 | 7.6 | 278,817 | 8.4 |
| Property management and related services | 20,281 | 0.3 | 21,231 | 0.3 | 21,692 | 0.3 | 11,593 | 0.3 | 11,695 | 0.4 |
| Total | <u>6,787,415</u> | <u>100.0</u> | <u>6,612,485</u> | <u>100.0</u> | <u>8,093,176</u> | <u>100.0</u> | <u>3,774,912</u> | <u>100.0</u> | <u>3,322,365</u> | <u>100.0</u> |

Property Development

As we derive a substantial portion of our revenue from property development, our results of operations for a given period depend primarily on the amount of the total saleable GFA, location and type of the properties we completed and delivered during such period, market conditions and the contracted sales price of our properties. For the years ended December 31, 2017, 2018, 2019 and for the six months ended June 30, 2019 and 2020, our overall GFA delivered was 531,725 sq.m., 573,811 sq.m., 586,149 sq.m., 342,596 sq.m. and 234,053 sq.m., respectively. For the years ended December 31, 2017, 2018, 2019 and for the six months ended June 30, 2019 and 2020, our overall recognized ASP per sq.m. was RMB16,260.7, RMB16,804.0, RMB18,713.0, RMB21,216.7 and RMB19,904.0 respectively.

We sell and deliver four types of properties, namely, residential, commercial, car parking spaces and storage units, as well as original-site resettlement residential properties. The table below sets forth, by property type, for the periods indicated, the percentages of their revenue contributions to our total revenue generated from property development:

| | Year ended December 31, | | | Six months ended June 30, | |
|---|-------------------------|--------------|--------------|------------------------------|--------------|
| | 2017 | 2018 | 2019 | 2019 | 2020 |
| | (%) | (%) | (%) | (%) | (%) |
| Residential | 79.3 | 87.6 | 89.9 | 88.3 | 96.6 |
| Commercial | 17.6 | 8.6 | 7.8 | 9.1 | 0.9 |
| Car parking spaces and storage units | 3.1 | 3.8 | 2.3 | 2.6 | 2.5 |
| Original-site resettlement residential properties* | — | — | — | — | — |
| Total | <u>100.0</u> | <u>100.0</u> | <u>100.0</u> | <u>100.0</u> | <u>100.0</u> |

* Comprise the original-site resettlement residential properties for Beijing Glory City and Beijing Fugui Garden.

The table below sets forth for the periods indicated, our revenue from sales of residential and commercial properties, the total GFA sold and the ASP for residential and commercial properties:

| | Residential | | | Commercial | | |
|--|-------------|---------|-------------|------------|---------|-------------|
| | Revenue | GFA | ASP | Revenue | GFA | ASP |
| | RMB | (sq.m.) | (RMB/sq.m.) | RMB | (sq.m.) | (RMB/sq.m.) |
| (in thousands, except sq.m. and RMB/sq.m.) | | | | | | |
| For the year ended December 31, | | | | | | |
| 2017 | 5,060,514 | 447,815 | 11,300 | 1,126,352 | 74,530 | 15,113 |
| 2018 | 5,192,484 | 527,979 | 9,835 | 509,535 | 28,160 | 18,094 |
| 2019 | 6,520,883 | 536,414 | 12,156 | 569,047 | 28,104 | 20,248 |
| For the six months ended June 30, | | | | | | |
| 2019 | 3,015,449 | 314,030 | 9,602 | 308,893 | 13,493 | 22,893 |
| 2020 | 2,816,496 | 214,468 | 13,132 | 25,157 | 2,798 | 8,990 |

Primary Land Construction and Development Services

We derive revenue from providing primary land construction and development services in undertaking primary land development projects. For the years ended December 31, 2017, 2018, 2019 and for the six months ended June 30, 2019 and 2020, we derived revenue of RMB75.1 million, RMB156.5 million, RMB206.3 million (US\$29.2 million), RMB66.5 million and RMB116.4 million (US\$16.5 million), respectively, from primary land construction and development services.

Property Investment

We derive rental income from leasing our investment properties. The table below sets forth the breakdown of rental income generated for the periods indicated:

| Location | Project (Phase) | Year ended December 31, | | | | Six months ended June 30, | | |
|---------------|--|-------------------------|----------------|----------------|-----------------|---------------------------|----------------|-----------------|
| | | 2017 | 2018 | 2019 | | 2019 | 2020 | |
| | | RMB | RMB | RMB | US\$ | RMB | RMB | US\$ |
| | | (in thousands) | | | | | | |
| Beijing . . . | Phases I, II Beijing Glory City (北京國瑞城) and Eudemonia Palace | 242,810 | 251,967 | 261,616 | 37,029.3 | 127,132 | 108,132 | 15,305.1 |
| Beijing . . . | Beijing Fugui Garden (北京富貴園) | 39,348 | 39,492 | 43,081 | 6,097.7 | 21,488 | 20,207 | 2,860.1 |
| Beijing . . . | Beijing Hademen Center (北京哈德門中心) | 4,285 | 154,987 | 219,018 | 31,000.0 | 100,050 | 108,732 | 15,390.0 |
| Shenyang . . | Shenyang Glory City (瀋陽國瑞城) | 174 | 6,417 | 7,564 | 1,070.6 | 3,609 | 337 | 47.7 |
| Shantou . . . | Shantou Glory City (汕頭國瑞城) | 23,676 | 27,579 | 28,235 | 3,996.4 | 13,950 | 12,370 | 1,750.9 |
| Beijing . . . | Beijing Bei Wu Lou (北京北五樓) | — | 23,287 | 23,629 | 3,344.5 | 11,627 | 8,445 | 1,195.3 |
| Foshan . . . | Foshan Glory Shengping Commercial Center (佛山國瑞升平商業中心) | — | 45 | 7,843 | 1,110.1 | — | — | — |
| Haikou . . . | Haikou Glory City (海口國瑞城) | — | 6,417 | 17,532 | 2,481.5 | 7,264 | 20,594 | 2,914.9 |
| Total | | <u>310,293</u> | <u>510,191</u> | <u>608,518</u> | <u>86,130.1</u> | <u>285,120</u> | <u>278,817</u> | <u>39,464.0</u> |

Property Management and Related Services

We provide property management services to the properties developed by us and generate fees for such services. For the years ended December 31, 2017, 2018, 2019 and for the six months ended June 30, 2019 and 2020, our revenue generated from property management and related services was RMB20.3 million, RMB21.2 million, RMB21.7 million (US\$3.1 million), RMB11.6 million and RMB11.7 million (US\$1.7 million), respectively.

Cost of Sales and Services

Our cost of sales and services primarily consists of cost of property development. The table below sets forth our cost of sales and services by type of business for the periods indicated:

| | Year ended December 31, | | | | | | Six months ended June 30, | | | |
|--|------------------------------------|--------------|------------------|--------------|------------------|--------------|---------------------------|--------------|------------------|--------------|
| | 2017 | | 2018 | | 2019 | | 2019 | | 2020 | |
| | RMB | (%) | RMB | (%) | RMB | (%) | RMB | (%) | RMB | (%) |
| | (in thousands, except percentages) | | | | | | | | | |
| Property development | 3,471,511 | 95.9 | 3,802,042 | 94.7 | 5,684,196 | 95.5 | 2,607,140 | 96.6 | 2,310,409 | 94.3 |
| Primary land construction and development services | 73,931 | 2.0 | 154,025 | 3.8 | 203,065 | 3.4 | 65,211 | 2.4 | 114,200 | 4.7 |
| Property investment | 67,174 | 1.9 | 52,256 | 1.3 | 63,171 | 1.0 | 25,650 | 0.9 | 24,523 | 1.0 |
| Property management and related services. | 5,927 | 0.2 | 4,960 | 0.1 | 4,023 | 0.1 | 2,245 | 0.1 | 1,833 | 0.1 |
| Total | <u>3,618,543</u> | <u>100.0</u> | <u>4,013,283</u> | <u>100.0</u> | <u>5,954,455</u> | <u>100.0</u> | <u>2,700,246</u> | <u>100.0</u> | <u>2,450,965</u> | <u>100.0</u> |

Property Development

Our cost of property development consists primarily of the costs we incurred directly in relation to our property development activities and includes construction costs, land use rights costs and capitalized interest:

- *Construction costs.* These represent costs for the design and construction of property projects and consist primarily of fees paid to our contractors, including those responsible for civil engineering, construction, landscaping, equipment installation and interior decoration, as well as infrastructure construction costs and design costs.
- *Land use rights costs.* These represent costs relating to the acquisition of rights to occupy, use and develop land, including land grant fees, demolition and resettlement costs, and other land related taxes. These costs for a particular project are influenced by a number of factors, including the location of the underlying property, market conditions, the project's plot ratios, the designated use of the underlying property, our method of acquisition and changes in PRC regulations.
- *Capitalized interest.* We capitalize a portion of our borrowing costs to the extent that such costs are directly related to the development of a particular project. Costs that are not directly attributable to the development of a project are expensed and recorded as finance costs in our consolidated statements of profit or loss and other comprehensive income and therefore fluctuations in the amount of our borrowing costs that can be capitalized from period to period will affect our finance costs.

The table below sets forth a breakdown of our cost of property development for the periods indicated:

| | Year ended December 31, | | | | | | Six months ended June 30, | | | |
|--------------------------------------|------------------------------------|-------|-----------|-------|-----------|-------|---------------------------|-------|-----------|-------|
| | 2017 | | 2018 | | 2019 | | 2019 | | 2020 | |
| | RMB | (%) | RMB | (%) | RMB | (%) | RMB | (%) | RMB | (%) |
| | (in thousands, except percentages) | | | | | | | | | |
| Construction costs | 2,363,066 | 65.3 | 2,548,791 | 63.5 | 2,132,865 | 35.8 | 1,327,689 | 49.2 | 840,747 | 34.3 |
| Land use rights costs | 867,669 | 24.0 | 1,088,274 | 27.1 | 2,909,931 | 48.9 | 990,400 | 36.7 | 1,198,532 | 48.9 |
| Capitalized interest | 240,776 | 6.6 | 164,978 | 4.1 | 641,401 | 10.8 | 289,051 | 10.7 | 271,130 | 11.1 |
| Cost of property development . . . | 3,471,511 | 95.9 | 3,802,042 | 94.7 | 5,684,196 | 95.5 | 2,607,140 | 96.6 | 2,310,409 | 94.3 |
| Cost of sales and services | 3,618,543 | 100.0 | 4,013,283 | 100.0 | 5,954,455 | 100.0 | 2,700,246 | 100.0 | 2,450,965 | 100.0 |

For the years ended December 31, 2017, 2018, 2019 and for the six months ended June 30, 2019 and 2020, our overall average cost per sq.m. of property development was RMB6,528.8, RMB6,629.7, RMB9,697.5, RMB7,610.0 and RMB9,871.3, respectively. The table below sets forth, by property type, for the years indicated, the total cost of sales and services, the total GFA sold and the average cost:

| | Residential | | | Commercial | | |
|--|--|---------|--------------|----------------------------|---------|--------------|
| | Cost of sales and services | GFA | Average cost | Cost of sales and services | GFA | Average cost |
| | RMB | (sq.m.) | (RMB/sq.m.) | RMB | (sq.m.) | (RMB/sq.m.) |
| | (in thousands, except sq.m. and RMB/sq.m.) | | | | | |
| For the year ended December 31, | | | | | | |
| 2017 | 2,885,830 | 447,815 | 6,444 | 484,411 | 74,530 | 6,500 |
| 2018 | 3,504,786 | 527,979 | 6,638 | 227,819 | 28,160 | 8,090 |
| 2019 | 5,394,304 | 536,414 | 10,056 | 225,896 | 28,104 | 8,038 |
| For the six months ended June 30, | | | | | | |
| 2019 | 2,433,455 | 314,030 | 7,749 | 104,467 | 13,493 | 7,742 |
| 2020 | 2,242,263 | 214,468 | 10,455 | 13,237 | 2,789 | 4,731 |

Primary Land Construction and Development Services

Costs of provision of primary land construction and development services typically include cost of compensating the residents of the properties subject to demolition, land levelling and construction of infrastructure and ancillary public facilities. See the section entitled “Business — Primary Land Development” of this offering memorandum for details. For the years ended December 31, 2017, 2018, 2019 and for the six months ended June 30, 2019 and 2020, we incurred cost of primary land construction and development services of RMB73.9 million, RMB154.0 million, RMB203.1 million (US\$28.7 million), RMB65.2 million and RMB114.2 million (US\$16.2 million), respectively.

Gross Profit and Gross Profit Margin

Gross profit represents revenue less cost of sales and services. Our gross profit for the years ended December 31, 2017, 2018, 2019 and for the six months ended June 30, 2019 and 2020 was RMB3,168.9 million, RMB2,599.2 million, RMB2,138.7 million (US\$302.7 million), RMB1,074.7 million and RMB871.4 million (US\$123.3 million), respectively. Our gross profit margin for the years ended December 31, 2017, 2018, 2019 and for the six months ended June 30, 2019 and 2020 was 46.7%, 39.3%, 26.4%, 28.5% and 26.2%, respectively.

Other Gains and Losses

Other gains and losses primarily consist of gains or losses from disposal of investment properties upon resettlement, allowance for doubtful debts, gains or losses from disposal of subsidiaries and changes in fair value of held-for-trading investments. We had other gains of RMB161.2 million, RMB67.4 million and RMB4.9 million (US\$0.7 million) for the years ended December 31, 2017, 2018 and 2019, respectively. We had other losses of RMB18.0 million for the six months ended June 30, 2019 and we had other losses of RMB43.7 million (US\$6.2 million) for the six months ended June 30, 2020. The volatility of other gains and losses is primarily due to fluctuation of foreign exchange rates.

Other Income

Other income consists primarily of interest income and compensation. Our other income for the years ended December 31, 2017, 2018, 2019 and for the six months ended June 30, 2019 and 2020 was RMB88.2 million, RMB159.3 million, RMB176.3 million (US\$25.0 million), RMB76.1 million and RMB111.9 million (US\$15.8 million), respectively.

Change in Fair Value of Investment Properties

We develop and hold certain of our commercial properties such as shopping malls, offices, specialized markets, siheyuan (四合院) and car parking spaces as investment properties to generate recurring rental income or for capital appreciation. Our investment properties are appraised annually by an independent property valuer. Any appreciation or depreciation in our investment property value is recognized as changes in fair value of investment properties in our consolidated statements of profit or loss and other comprehensive income. The gain on fair value of investment properties for the years ended December 31, 2017, 2018, 2019 and for the six months ended June 30, 2019 and 2020 were RMB955.7 million, RMB907.8 million, RMB1,061.4 million (US\$150.2 million), RMB531.8 million and RMB238.4 million (US\$33.7 million), respectively.

Distribution and Selling Expenses

Distribution and selling expenses consist primarily of advertising and publicity expenses, including advertisements on television and in newspapers, magazines and on billboards, sales commission to outside agents and sales commission to and salaries and benefits of our own employees, as well as other expenses. Our distribution and selling expenses in a given period are affected by the number of new property development projects launched in that period and we may be required to incur additional selling expenses when we enter into a new market as part of our efforts to grow our business. Our distribution and selling expenses for the years ended December 31, 2017, 2018, 2019 and for the six months ended June 30, 2019 and 2020 were RMB194.9 million, RMB206.8 million, RMB305.9 million (US\$43.3 million), RMB164.0 million and RMB128.3 million (US\$18.2 million), respectively.

Administrative Expenses

Administrative expenses consist primarily of salaries and benefits of our administrative staff, office expenses, depreciation and amortization, property tax, land use tax and stamp duty, utilities and others. Our administrative expenses for the years ended December 31, 2017, 2018, 2019 and for the six months ended June 30, 2019 and 2020 were RMB360.7 million, RMB507.8 million, RMB556.8 million (US\$78.8 million), RMB268.7 million and RMB243.9 million (US\$34.5 million), respectively.

Other Expenses

Other expenses consist primarily of donations, compensation, penalties for listing expenses. We had other expenses of RMB45.7 million, RMB53.3 million, RMB20.1 million (US\$2.8 million), RMB22.0 million and RMB5.7 million (US\$0.8 million), respectively, for the years ended December 31, 2017, 2018, 2019 and for the six months ended June 30, 2019 and 2020.

Finance Costs

Finance costs consist primarily of interest expenses on borrowings less capitalized interest. Not all of the interest costs related to a project can be capitalized. Interest on borrowings relating to project development is capitalized to the extent such borrowings are directly related to a particular project and used to finance the development of that project.

The table below sets forth our finance costs for the periods indicated:

| | Year ended December 31, | | | Six months ended June 30, | |
|--|-------------------------|----------------|----------------|---------------------------|----------------|
| | 2017 | 2018 | 2019 | 2019 | 2020 |
| | RMB | RMB | RMB | RMB | RMB |
| | (in thousands) | | | | |
| Interest expenses | | | | | |
| Interest on bank loans | 1,102,090 | 1,101,531 | 1,304,047 | 799,742 | 757,920 |
| Interest on corporate bonds | 282,137 | 260,119 | 55,570 | 22,158 | 22,936 |
| Interest on senior notes | 121,210 | 358,780 | 630,511 | 278,640 | 393,161 |
| Interest on trust borrowings | 210,589 | 477,083 | 559,748 | 125,234 | 82,113 |
| Interest on loans from financial institutions | — | 62,036 | 179,929 | 70,424 | 78,146 |
| Interest on lease liabilities | — | — | 208 | 41 | 170 |
| Interest on significant financing component of contract liabilities | — | 402,582 | 669,122 | 279,412 | 595,424 |
| Exchange loss on senior notes and borrowings | — | 319,846 | 49,732 | — | — |
| Total interest expenses | 1,716,026 | 2,981,977 | 3,448,867 | 1,575,651 | 1,929,870 |
| Less: amounts capitalized to properties under development and investment properties under construction | (1,517,343) | (2,736,531) | (3,044,190) | (1,373,680) | (1,709,404) |
| Finance costs | <u>198,683</u> | <u>245,446</u> | <u>404,677</u> | <u>201,971</u> | <u>220,466</u> |

Income Tax Expenses

Income tax expenses for a given period include provisions made for LAT, PRC enterprise income tax and deferred income tax during the year. The PRC enterprise income tax for both domestic and foreign invested enterprises has been unified at the rate of 25% since January 1, 2008. Some of our subsidiaries were subject to the PRC enterprise income tax on a verification collection basis at deemed profit representing 10% of their revenue for each of the years ended December 31, 2017, 2018, 2019 and for the six months ended June 30, 2019 and 2020, respectively, in accordance with authorized tax valuation method approved by local tax bureau pursuant to the applicable PRC tax regulations.

The table below sets forth our income tax expenses for the periods indicated:

| | Year ended December 31, | | | Six months ended June 30, | |
|---|-------------------------|------------------|----------------|---------------------------|----------------|
| | 2017 | 2018 | 2019 | 2019 | 2020 |
| | RMB | RMB | RMB | RMB | RMB |
| | (in thousands) | | | | |
| Current tax | | | | | |
| PRC enterprise income tax | 611,243 | 438,057 | 406,767 | 235,358 | 276,084 |
| PRC dividend withholding income tax | — | 35,000 | 26,000 | — | — |
| LAT | 797,135 | 477,559 | 322,589 | 164,067 | 194,365 |
| Under provision in prior year | — | 242 | 80 | 608 | 81 |
| Deferred tax | 119,244 | 177,379 | 71,114 | 26,614 | (186,498) |
| | <u>1,527,622</u> | <u>1,128,237</u> | <u>826,550</u> | <u>426,647</u> | <u>284,032</u> |
| Effective tax rate | 42.8% | 41.8% | 40.4% | 42.8% | 50.3% |

RESULTS OF OPERATIONS

The table below sets forth selected items from our consolidated statements of profit or loss and other comprehensive income for the periods indicated. The fluctuations in our operating results reflect the cyclical nature of the real estate industry, the timing of our property development projects and revenue recognition, the unpredictable impact of government regulations on the property market and other factors beyond our control. Our results of operations have fluctuated in the past and are likely to continue to fluctuate in the future. Therefore, our operating results may not be directly comparable from period to period, and our past performance may not be a reliable indicator of our future operating results.

| | Year ended December 31, | | | | Six months ended June 30, | | |
|--|------------------------------------|------------------|------------------|----------------|---------------------------|--------------------|---------------|
| | 2017 | 2018 | 2019 | 2019 | 2019 | 2020 | 2020 |
| | RMB (audited) | RMB (audited) | RMB (audited) | US\$ | RMB (unaudited) | RMB (unaudited) | US\$ |
| | (in thousands, except percentages) | | | | | | |
| Revenue | 6,787,415 | 6,612,485 | 8,093,176 | 1,145,515 | 3,774,912 | 3,322,365 | 470,250 |
| Cost of sales and services | (3,618,543) | (4,013,283) | (5,954,455) | (842,798) | (2,700,246) | (2,450,965) | (346,912) |
| Gross profit | 3,168,872 | 2,599,202 | 2,138,721 | 302,716 | 1,074,666 | 871,400 | 123,339 |
| Other gains and losses | 161,185 | 67,364 | 4,856 | 687 | (17,993) | (43,687) | (6,184) |
| Impairment losses under expected credit loss model, net of reversal. | — | — | (27,213) | (3,852) | — | (5,178) | (733) |
| Other income | 88,241 | 159,267 | 176,326 | 24,957 | 76,110 | 111,855 | 15,832 |
| Change in fair value of investment properties | 955,743 | 907,791 | 1,061,366 | 150,227 | 531,751 | 238,363 | 33,738 |
| Share of results of joint ventures | (936) | (11,939) | (19,786) | (2,801) | (5,992) | (8,088) | (1,145) |
| Share of results of associates | (6,014) | (10,905) | (565) | (80) | (5,364) | (1,247) | (177) |
| Distribution and selling expenses | (194,915) | (206,799) | (305,948) | (43,304) | (164,006) | (128,337) | (18,165) |
| Administrative expenses | (360,684) | (507,815) | (556,802) | (78,810) | (268,730) | (243,894) | (34,521) |
| Other expenses | (45,676) | (53,252) | (20,115) | (2,847) | (21,977) | (5,666) | (802) |
| Finance costs | (198,683) | (245,446) | (404,677) | (57,278) | (201,971) | (220,466) | (31,205) |
| Profit before tax | 3,567,133 | 2,697,468 | 2,046,163 | 289,616 | 996,494 | 565,055 | 79,978 |
| Income tax expenses | (1,527,622) | (1,128,237) | (826,550) | (116,991) | (426,647) | (284,032) | (40,202) |
| Profit for the year/period | <u>2,039,511</u> | <u>1,569,231</u> | <u>1,219,613</u> | <u>172,625</u> | <u>569,847</u> | <u>281,023</u> | <u>39,776</u> |
| Other comprehensive income (expense) | | | | | | | |
| Items that will not be reclassified to profit or loss: | | | | | | | |
| Gain on revaluation of properties | 324,949 | — | — | — | — | — | — |
| Changes in fair value of equity instruments at fair value through other comprehensive income | — | (9,593) | 3,893 | 551 | 3,893 | — | — |
| Income tax relating to items that will not be reclassified to profit or loss | (81,237) | 2,398 | (973) | (138) | (973) | — | — |
| Other comprehensive income (expense) for the year/period | <u>243,712</u> | <u>(7,195)</u> | <u>2,920</u> | <u>413</u> | <u>2,920</u> | <u>—</u> | <u>—</u> |
| Total comprehensive income for the year/period | <u>2,283,223</u> | <u>1,562,036</u> | <u>1,222,533</u> | <u>173,038</u> | <u>572,767</u> | <u>281,023</u> | <u>39,776</u> |

| | Year ended December 31, | | | | Six months ended June 30, | | |
|--|------------------------------------|------------------|------------------|----------------|---------------------------|----------------|---------------|
| | 2017 | 2018 | 2019 | 2019 | 2019 | 2020 | 2020 |
| | RMB | RMB | RMB | US\$ | RMB | RMB | US\$ |
| | (audited) | (audited) | (audited) | | (unaudited) | (unaudited) | |
| | (in thousands, except percentages) | | | | | | |
| Profit for the year/period attributable to: | | | | | | | |
| Owners of the Company | 1,749,841 | 1,008,784 | 859,764 | 121,692 | 428,576 | 71,306 | 10,093 |
| Non-controlling interests | 289,670 | 560,447 | 359,849 | 50,933 | 141,271 | 209,717 | 29,684 |
| | <u>2,039,511</u> | <u>1,569,231</u> | <u>1,219,613</u> | <u>172,625</u> | <u>569,847</u> | <u>281,023</u> | <u>39,776</u> |
| Total comprehensive income for the year/period attributable to: | | | | | | | |
| Owners of the Company | 1,944,811 | 1,002,237 | 862,421 | 122,068 | 431,233 | 71,306 | 10,093 |
| Non-controlling interests | 338,412 | 559,799 | 360,112 | 50,971 | 141,534 | 209,717 | 29,684 |
| | <u>2,283,223</u> | <u>1,562,036</u> | <u>1,222,533</u> | <u>173,038</u> | <u>572,767</u> | <u>281,023</u> | <u>39,776</u> |
| Other Financial Data (unaudited): | | | | | | | |
| EBITDA ⁽¹⁾ | 2,646,480 | 1,958,853 | 1,361,342 | 192,686 | 683,561 | 541,303 | 76,617 |
| EBITDA margin ⁽²⁾ | 39.0% | 29.6% | 16.8% | 16.8% | 18.1% | 16.3% | 16.3% |

Note:

- (1) EBITDA for any period consists of gross profit less selling and administrative expenses, plus depreciation and amortization. EBITDA is not a standard measure under IFRS. 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, net income or any other measure of financial performance or as an indicator of our operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. EBITDA does not account for taxes, interest expense or other non-operating cash expenses. In evaluating EBITDA, we believe that investors should consider, among other things, the components of EBITDA such as sales and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. We have included EBITDA because we believe it is a useful supplement to cash flow data as a measure of our performance and our ability to generate cash flow from operations to cover debt service and taxes. EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare our EBITDA to EBITDA presented by other companies because not all companies use the same definition. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Non-GAAP Financial Measures" for a reconciliation of our profit for the year under IFRS to our definition of EBITDA. Investors should also note that EBITDA as presented herein may be calculated differently from Consolidated EBITDA as defined and used in the Indenture governing the Notes. See "Description of the Notes — Definitions" for a description of the manner in which Consolidated EBITDA is defined for purposes of the Indenture governing the Notes.
- (2) EBITDA margin is calculated by dividing EBITDA by revenue.

Six months ended June 30, 2020 compared with six months ended June 30, 2019

Revenue

Our revenue decreased by 12.0% from RMB3,774.9 million for the six months ended June 30, 2019 to RMB3,322.4 million (US\$470.3 million) for the six months ended June 30, 2020, primarily due to decreased revenue from property development.

Property Development. Revenue generated from property development decreased by 14.5% from RMB3,411.7 million for the six months ended June 30, 2019 to RMB2,915.4 million (US\$412.6 million) for the six months ended June 30, 2020, primarily due to the uneven pace of completion and delivery.

Primary Land Construction and Development Services. Revenue generated from primary land construction and development services increased by 75.0% from RMB66.5 million for the six months ended June 30, 2019 to RMB116.4 million (US\$16.5 million) for the six months ended June 30, 2020, which is generally in line with the progress of resettlement and demolition projects during the same period.

Property Investment. Revenue generated from property investment decreased by 2.2% from RMB285.1 million for the six months ended June 30, 2019 to RMB278.8 million (US\$39.5 million) for the six months ended June 30, 2020, primarily due to the effect of COVID-19.

Property Management and Related Services. Revenue generated from property management and related services slightly increased from RMB11.6 million for the six months ended June 30, 2019 to RMB11.7 million (US\$1.7 million) for the six months ended June 30, 2020.

Cost of Sales and Services

Our cost of sales and services decreased by 9.2% from RMB2,700.2 million for the six months ended June 30, 2019 to RMB2,451.0 million (US\$346.9 million) for the six months ended June 30, 2020, primarily due to the uneven delivery of properties.

Our cost of property development decreased by 11.4% from RMB2,607.1 million for the six months ended June 30, 2019 to RMB2,310.4 million (US\$327.0 million) for the six months ended June 30, 2020, primarily due to the uneven progress of project delivery and settlement.

Gross Profit

For the six months ended June 30, 2020, our gross profit was RMB871.4 million (US\$123.3 million), representing a decrease of 18.9% as compared to the corresponding period of last year, primarily due to the decrease in gross profit of property development.

Gross profit of property development was RMB605.0 million (US\$85.6 million), representing a decrease of 24.8% as compared to the corresponding period of last year. The decrease in our gross profit of property development was primarily due to the decrease in the revenue from properties delivered and carried forward for the six months ended June 30, 2020 as compared to the same period of last year.

Net Profit Attributable to Owners of the Company

For the six months ended June 30, 2020, the net profit attributable to owners of the Company was RMB71.3 million (US\$10.1 million), representing a decrease of 83.4% from RMB428.6 million for the six months ended June 30, 2019.

Changes in Fair Value Gains on Investment Properties

The fair value gains on investment properties at the Group's level decreased by 55.2% from RMB531.8 million for the six months ended June 30, 2019 to RMB238.4 million (US\$33.7 million) for the six months ended June 30, 2020.

Other Gains and Losses

Other losses were RMB18.0 million for the six months ended June 30, 2019, while other losses were RMB43.7 million (US\$6.2 million) for the six months ended June 30, 2020, which was primarily due to the foreign exchange losses.

Other Income

Other income increased by 47.0% from RMB76.1 million for the six months ended June 30, 2019 to RMB111.9 million (US\$15.8 million) for the six months ended June 30, 2020, which was mainly due to the recognized return on capital employed with associates and joint ventures for the period.

Distribution and Selling Expenses

Distribution and selling expenses decreased by 21.8% from RMB164.0 million for the six months ended June 30, 2019 to RMB128.3 million (US\$18.2 million) for the six months ended June 30, 2020, which was primarily due to the decreased marketing agency fees caused by the decreased contract sales for the period.

Administrative Expenses

Administrative expenses decreased by 9.2% from RMB268.7 million for the six months ended June 30, 2019 to RMB243.9 million (US\$34.5 million) for the six months ended June 30, 2020, which was primarily due to the tighter administrative budget.

Finance Costs

Finance costs increased by 9.2% from RMB202.0 million for the six months ended June 30, 2019 to RMB220.5 million (US\$31.2 million) for the six months ended June 30, 2020.

Income Tax Expenses

Income tax expenses decreased by 33.4% from RMB426.6 million for the six months ended June 30, 2019 to RMB284.0 million (US\$40.2 million) for the six months ended June 30, 2020, which was primarily due to the decrease of the profit before taxation. Our PRC enterprise income tax and land appreciation tax for the six months ended June 30, 2020 were RMB276.1 million and RMB194.4 million, respectively.

Total Comprehensive Income

As a result of the foregoing reasons, our total comprehensive income decreased from RMB572.8 million for the six months ended June 30, 2019 to RMB281.0 million (US\$39.8 million) for the six months ended June 30, 2020. The decrease in our total comprehensive income was primarily due to the decrease of change in fair value of investment properties for the six months ended June 30, 2020 as compared to the corresponding period of last year.

Year Ended December 31, 2019 Compared with Year Ended December 31, 2018

Revenue

Our revenue increased by 22.4% from RMB6,612.5 million in 2018 to RMB8,093.2 million in 2019, primarily due to increased revenue generated from property development.

Property Development. Revenue generated from property development increased by 22.5% from RMB5,924.6 million in 2018 to RMB7,256.7 million in 2019, primarily due to the increase of property development GFA delivered in 2019.

Primary Land Construction and Development Services. Revenue generated from primary land construction and development services increased by 31.8% from RMB156.5 million in 2018 to RMB206.3 million in 2019, primarily due to the progress of resettlement and demolition projects during the same period.

Property Investment. Rental income from leasing investment properties increased by 19.3% from RMB510.2 million in 2018 to RMB608.5 million in 2019.

Property Management and Related Services. Revenue generated from property management and related services increased by 2.4% from RMB21.2 million in 2018 to RMB21.7 million in 2019, primarily due to decreased area of properties under our management in 2019.

Cost of Sales and Services

Our cost of sales and services increased by 48.4% from RMB4,013.3 million in 2018 to RMB5,954.5 million in 2019, primarily due to the increased cost of property development.

Our cost of property development increased by 49.5% from RMB3,802.0 million in 2018 to RMB5,684.2 million in 2019, primarily due to the uneven progress of project delivery and settlement for the year ended December 31, 2019.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit decreased by 17.7% from RMB2,599.2 million in 2018 to RMB2,138.7 million in 2019. Our overall gross profit margin decreased by 12.9% from 39.3% in 2018 to 26.4% in 2019.

Other Gains and Losses

Other gains were RMB67.4 million in 2018, while other gains were RMB4.9 million in 2019. The decrease is mainly due to the exchange gains arising from senior notes in 2018 and the exchange losses in 2019.

Other Income

Other income increased by 10.7% from RMB159.3 million in 2018 to RMB176.3 million in 2019, primarily due to the recognized return on capital employed with associates and joint ventures for the year.

Change in Fair Value of Investment Properties

Change in fair value of investment properties increased by 16.9% from RMB907.8 million in 2018 to RMB1,061.4 million in 2019.

Distribution and Selling Expenses

Distribution and selling expenses increased by 47.9% from RMB206.8 million in 2018 to RMB305.9 million in 2019.

Administrative Expenses

Administrative expenses increased by 9.6% from RMB507.8 million in 2018 to RMB556.8 million in 2019.

Finance Costs

Finance costs increased by 64.9% from RMB245.4 million in 2018 to RMB404.7 million in 2019, primarily due to an increase in amount of borrowings expenses for the year.

Income Tax Expenses

Income tax expenses decreased by 26.7% from RMB1,128.2 million in 2018 to RMB826.6 million in 2019, primarily due to the decrease in profit before taxation. The PRC enterprise income tax and land appreciation tax for the year of 2019 were RMB406.8 million and RMB322.6 million, respectively.

Total Comprehensive Income for the Year

As a result of the foregoing, our total comprehensive income for the year decreased by 21.7% from RMB1,562.0 million in 2018 to RMB1,222.5 million in 2019.

Year Ended December 31, 2018 Compared with Year Ended December 31, 2017

Revenue

Our revenue decreased by 2.6% from RMB6,787.4 million in 2017 to RMB6,612.5 million in 2018, primarily due to decreased revenue generated from property development.

Property Development. Revenue generated from property development decreased by 7.2% from RMB6,381.7 million in 2017 to RMB5,924.6 million in 2018, primarily due to the uneven pace of completion and delivery.

Primary Land Construction and Development Services. Revenue generated from primary land construction and development services increased by 108.4% from RMB75.1 million in 2017 to RMB156.5 million in 2018 primarily due to the progress of resettlement and demolition projects in 2018.

Property Investment. Rental income from leasing investment properties increased by 64.4% from RMB310.3 million in 2017 to RMB510.2 million in 2018.

Property Management and Related Services. Revenue generated from property management and related services increased by 4.4% from RMB20.3 million in 2017 to RMB21.2 million in 2018, primarily due to increased area of properties under our management.

Cost of Sales and Services

Our cost of sales and services increased by 10.9% from RMB3,618.5 million in 2017 to RMB4,013.3 million in 2018, primarily due to the increased cost of property development.

Our cost of property development increased by 9.5% from RMB3,471.5 million in 2017 to RMB3,802.0 million in 2018, primarily due to uneven progress of project delivery and settlement for the year ended December 31, 2018.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit decreased by 18.0% from RMB3,168.9 million in 2017 to RMB2,599.2 million in 2018. Our overall gross profit margin decreased from 46.7% in 2017 to 39.3% in 2018.

Other Gains and Losses

Other gains decreased from RMB161.2 million in 2017 to RMB67.4 million in 2018. The decrease is mainly due to the exchange gains arising from senior notes in 2017 and the exchange losses in 2018.

Other Income

Other income increased by 80.5% from RMB88.2 million in 2017 to RMB159.3 million in 2018, which was mainly due to the recognized return on capital employed with associates and joint ventures in 2018.

Change in Fair Value of Investment Properties

Change in fair value of investment properties decreased by 5.0% from RMB955.7 million in 2017 to RMB907.8 million in 2018.

Distribution and Selling Expenses

Distribution and selling expenses increased by 6.1% from RMB194.9 million in 2017 to RMB206.8 million in 2018.

Administrative Expenses

Administrative expenses increased by 40.8% from RMB360.7 million in 2017 to RMB507.8 million in 2018, primarily due to the increase in real estate tax and depreciation expenses as a result of the completion of Beijing Hademen Center project and its partial transfer to fixed assets, as well as the increase of compensation as a result of the enlarging scale and increased number of employees of the Group in 2018.

Finance Costs

Finance costs increased by 23.5% from RMB198.7 million in 2017 to RMB245.4 million in 2018, primarily due to the increase in amount of borrowings expensed in 2018 as compared to 2017.

Income Tax Expenses

Income tax expenses decreased by 26.1% from RMB1,527.6 million in 2017 to RMB1,128.2 million in 2018, primarily due to the decrease in profit before taxation. The PRC enterprise income tax and land appreciation tax for 2018 were RMB438.1 million and RMB477.6 million, respectively.

Total Comprehensive Income for the Year

As a result of the foregoing, our total comprehensive income for the year decreased by 31.6% from RMB2,283.2 million in 2017 to RMB1,562.0 million in 2018.

LIQUIDITY AND CAPITAL RESOURCES

We have financed our working capital, capital expenditures and other capital requirements primarily through internally generated funds and bank borrowings and to a lesser extent, trust financings. We may also raise additional funds through debt or equity offerings or sales or other dispositions of assets or business units in the future to finance our working capital, capital expenditures and other capital requirements.

Cash Flows

The table below sets out selected cash flow data from our consolidated statements of cash flows for the periods indicated:

| | Year ended December 31, | | | | Six months ended June 30, | | |
|--|-------------------------|------------------|----------------|---------------|---------------------------|------------------|----------------|
| | 2017 | 2018 | 2019 | 2019 | 2019 | 2020 | |
| | RMB | RMB | RMB | US\$ | RMB | RMB | US\$ |
| | (in thousands) | | | | | | |
| Net cash (used in) generated from operating activities | (3,240,374) | 742,264 | 5,507,027 | 779,469 | 2,438,321 | 2,427,917 | 343,649 |
| Net cash (used in) generated from investing activities | (4,782,092) | 2,504,520 | (2,215,324) | (313,559) | (835,160) | (976,384) | (138,198) |
| Net cash (used in) generated from financing activities | 8,379,722 | (3,808,147) | (3,784,920) | (535,721) | (306,338) | (132,067) | (18,693) |
| Net increase (decrease) in cash and cash equivalents | 357,256 | (561,363) | (493,217) | (69,810) | 1,296,823 | 1,319,466 | 186,758 |
| Cash and cash equivalents at beginning of the year/period | 1,234,250 | 1,591,506 | 1,030,143 | 145,807 | 1,030,143 | 536,926 | 75,997 |
| Cash and cash equivalents at end of the year/period | 1,591,506 | 1,030,143 | 536,926 | 75,997 | 2,326,966 | 1,856,392 | 262,755 |

Cash flows (used in) generated from operating activities

Cash generated from operating activities is principally from proceeds received from sales and pre-sales of our properties, rental income from the leasing of our investment properties, and income from our property management and other property related services. Cash used in operating activities principally comprises payments in connection with our property development activities.

For the six months ended June 30, 2020, we had net cash generated from operating activities of RMB2,427.9 million (US\$343.6 million), primarily due to an increase in contract liabilities of RMB1,812.2 million for the first half of 2020.

For the year ended December 31, 2019, we had net cash generated from operating activities of RMB5,507.0 million (US\$779.5 million), primarily due to an increase in contract liabilities of RMB5,455.3 million (US\$772.1 million) in 2019.

For the year ended December 31, 2018, we had net cash generated from operating activities of RMB742.3 million, consisting primarily of increase in contract liabilities of RMB3,401.8 million, partially offset by decrease in trade and other payables of RMB1,492.9 million in 2019.

For the year ended December 31, 2017, we had net cash used in operating activities of RMB3,240.4 million, consisting primarily of (i) increase in other non-current assets, properties under development for sale and properties held for sale of RMB5,326.2 million, and (ii) increase in deposits paid for land acquisition of RMB240.0 million, partially offset by profit before taxation of RMB3,567.1 million.

Cash flows (used in) generated from investing activities

Cash generated from investing activities consists primarily of the disposal of land use rights and subsidiaries, withdrawal of restricted bank deposits and repayment from related parties and independent parties. Cash used in investing activities primarily consists of acquisition of subsidiaries, placement of restricted bank deposits and advances to related parties and independent third parties.

For the six months ended June 30, 2020, we had net cash used in investing activities of RMB976.4 million (US\$138.2 million), which primarily consists of advances to related parties of RMB2,342.2 million (US\$331.5 million).

For the year ended December 31, 2019, we had net cash used in investing activities of RMB2,215.3 million (US\$313.6 million), which primarily consists of (i) advance to related parties of RMB6,431.5 million (US\$910.3 million), and (ii) repayments from related parties of RMB4,677.2 million (US\$662.0 million).

For the year ended December 31, 2018, we had net cash generated from investing activities of RMB2,504.5 million, consisting primarily of (i) net cash inflow on acquisition of subsidiaries of RMB730.2 million, and (ii) repayments from related parties of RMB4,979.1 million. These and other investing activities offset advances to related parties of RMB2,802.0 million.

For the year ended December 31, 2017, we had net cash used in investing activities of RMB4,782.1 million, consisting primarily of (i) advances to related parties of RMB3,668.8 million and (ii) payments for investment properties of RMB633.5 million. These and other investing activities offset repayments from related parties of RMB840.0 million.

Cash flows (used in) generated from financing activities

Cash generated from financing activities primarily consists of proceeds from new bank and other borrowings, advances from related parties and capital injection from our shareholders. Cash used in financing activities primarily consists of repayment of bank and other borrowings, dividend paid to equity holders, payment of interest, repayments to related parties and acquisition of interests in subsidiaries.

For the six months ended June 30, 2020, we had net cash used in financing activities of RMB132.1 million (US\$18.7 million).

For the year ended December, 2019, we had net cash used in financing activities of RMB3,784.9 million (US\$535.7 million), consisting primarily of (i) repayments of bank borrowings of RMB7,407.7 million (US\$1,048.5 million), (ii) repayments to related parties of RMB6,929.6 million (US\$980.8 million) and (iii) repayments of trust borrowings of RMB3,902.1 million (US\$552.3 million), partially offset by (i) new bank borrowings raised of RMB9,143.3 million (US\$1,294.2 million) and (ii) advances from related parties of RMB8,168.9 million (US\$1,156.2 million).

For the year ended December 31, 2018, we had net cash used in financing activities of RMB3,808.1 million, consisting primarily of (i) repayments of bank borrowings of RMB13,027.9 million and (ii) repayments of corporate bonds of RMB2,945.3 million, partially offset by (i) new bank borrowings raised of RMB6,510.0 million and (ii) new trust borrowings raised of RMB7,027.9 million.

For the year ended December 31, 2017, we had net cash generated from financing activities of RMB8,379.7 million, consisting primarily of (i) new bank borrowings raised of RMB8,154.0 million and (ii) new trust borrowings raised of RMB4,760.0 million, partially offset by (i) repayment of bank borrowings of RMB4,244.8 million and (ii) interest paid of RMB1,655.3 million.

INDEBTEDNESS AND CONTINGENT LIABILITIES

Bank and Other Borrowings, Senior Notes and Corporate Bonds

The table below sets forth our total bank and other borrowings as of the dates indicated:

| | As of December 31 | | | As of June 30, |
|---|---------------------|--------------------|--------------------|--------------------|
| | 2017 | 2018 | 2019 | 2020 |
| | RMB | RMB | RMB | RMB |
| | (in thousands) | | | |
| Bank loans, secured | 19,517,064 | 13,968,042 | 15,738,489 | 19,129,064 |
| Other loans, secured | 4,710,000 | 9,330,942 | 6,328,115 | 3,945,360 |
| Senior notes | 1,940,948 | 4,445,783 | 4,811,294 | 3,970,906 |
| Corporate bonds | 3,989,651 | 1,053,435 | 565,787 | 588,723 |
| | <u>30,157,663</u> | <u>28,798,202</u> | <u>27,443,685</u> | <u>27,634,053</u> |
| Bank and other loans are repayable: | | | | |
| — On demand and within one year . . | 11,625,399 | 9,037,963 | 6,317,710 | 6,048,341 |
| — More than one year, but not exceeding two years | 6,427,891 | 4,645,161 | 3,862,640 | 4,291,820 |
| — More than two years, but not exceeding five years | 3,185,080 | 3,167,987 | 4,999,286 | 5,566,821 |
| — More than five years | 2,988,694 | 6,447,873 | 6,886,968 | 7,167,442 |
| | <u>24,227,064</u> | <u>23,298,984</u> | <u>22,066,604</u> | <u>23,074,424</u> |
| Less: Amount due within one year shown under current liabilities . . . | <u>(11,625,399)</u> | <u>(9,037,963)</u> | <u>(6,317,710)</u> | <u>(6,048,341)</u> |
| Amount due after one year | <u>12,601,665</u> | <u>14,261,021</u> | <u>15,748,894</u> | <u>17,026,083</u> |

Our outstanding current and non-current bank and other loans amounted to RMB24,227.1 million, RMB23,299.0 million, RMB22,066.6 million (US\$3,123.3 million) and RMB23,074.4 million (US\$3,266.0 million) as of December 31, 2017, 2018, 2019 and June 30, 2020, respectively. Our current and non-current bank and other loans increased steadily, primarily due to the increase in our property development activities.

For the years ended December 31, 2017, 2018, 2019 and for the six months ended June 30, 2019 and 2020, the effective interest rate of our variable rate borrowings ranged from 2.58% to 6.50%, 4.75% to 8.50%, 4.75% to 10.00% and 4.75% to 10.00%, respectively. The effective interest rate of our fixed rate borrowings ranged from 5.90% to 8.75%, 4.75% to 12.00%, 4.75% to 13.00% and 4.75% to 13.65%, for the years ended December 31, 2017, 2018, 2019 and for the six months ended June 30, 2019 and 2020, respectively. Bank borrowings are one of the most important sources of funding for our property developments. As of December 31, 2017, 2018, 2019 and June 30, 2020, bank borrowings (excluding corporate bonds and senior notes) accounted for 80.6%, 60.0%, 71.3% and 82.9%, respectively, of our bank and other borrowings. The increase in the effective interest rate on our bank borrowings was primarily due to an increase in the PBOC benchmark rates and the tightened credit policies imposed by banks towards PRC property developers. Other loans comprise loans from non-bank financial institutions. The proportion of our other borrowings from non-bank financial institutions in our bank and other borrowings increased from 19.4% as of December 31, 2017, to 40.0% as of December 31, 2018, decreased to 28.7% as of December 31, 2019 and decreased to 17.1% as of June 30, 2020. While drawdowns on bank loans usually depend on actual construction progress, drawdowns on trust financings may be made in full in one or multiple installments as agreed with the relevant trust companies, which provide better cash position and liquidity. See the section entitled “Description of Other Material Indebtedness — Trust Financings” in this offering memorandum for more details. While trust financing

companies do not usually link their interest rates to the PBOC benchmark interest rates, they typically charge rates higher than those charged by commercial banks. For further information, see the section entitled “Risk Factors — Risks Relating to Our Business — Our total interest expenses for our borrowings are subject to changes in interest rates” in this offering memorandum.

Some of our borrowings are secured by properties under development for sale, properties held for sale, investment properties and prepaid lease payments as well as property, plant and equipment and restricted bank deposits, or combinations of the above. The table below sets forth assets pledged to secure certain borrowing granted to us as of the dates indicated:

| | As of December 31, | | | As of |
|--|--------------------|-------------------|-------------------|-------------------|
| | 2017 | 2018 | 2019 | June 30, |
| | RMB | RMB | RMB | RMB |
| | (in thousands) | | | |
| Investment properties | 16,769,654 | 17,675,155 | 18,606,400 | 19,329,400 |
| Properties under development | 14,215,345 | 15,378,746 | 16,470,513 | 18,399,203 |
| Properties held for sale. | 1,203,340 | 473,279 | 748,090 | 730,858 |
| Property, plant and equipment. | 617,349 | 814,801 | 784,730 | 752,126 |
| Right-of-use assets. | — | — | 274,650 | 217,615 |
| Prepaid lease payment | 286,638 | 278,637 | — | — |
| Restricted bank deposits | 224,995 | 11 | 250,006 | 27 |
| Total | 33,317,321 | 34,620,629 | 37,134,389 | 39,429,229 |

Certain of our loan agreements are subject to a number of customary affirmative and/or negative covenants, such as restrictions on change of control and disposition of material assets, as well as financial ratios, such as debt-to-equity ratio, with which we must comply. For further information, see the sections entitled “Description of Other Material Indebtedness” and “Risk Factors — Risks Relating to Our Business — We are subject to certain restrictive covenants and risks normally associated with borrowings which may limit or otherwise materially and adversely affect our business, financial condition and results of operations” in this offering memorandum.

Contingent Liabilities

In line with industry practice, we have entered into arrangements with various banks for the provision of mortgage financing to our customers. We do not conduct independent credit checks on the purchasers, but rely on credit checks conducted by relevant banks. As with other property developers in the PRC, the banks usually require us to guarantee our customers’ obligations to repay the mortgage loans on the properties. The guarantee period normally lasts until the bank receives the strata-title building ownership certificate (分戶產權證) from the customer as security of the mortgage loan granted. As of December 31, 2017, 2018, 2019 and June 30, 2020, our outstanding guarantees in respect of the mortgages of our customers were RMB7,662.5 million, RMB7,695.0 million, RMB8,460.3 million (US\$1,197.5 million) and RMB8,801.2 million (US\$1,245.7 million), respectively. If a customer defaults under a mortgage loan during the term of the guarantee, we may be required to repay all debt owed by such purchaser to the mortgagee bank under the loan. Under such circumstances, we are entitled to forfeit the down payment received and sell the repossessed properties.

Contractual Obligations and Capital Commitments

The table below sets forth our property development expenditures as of the dates indicated:

| | As of December 31, | | | As of |
|---|--------------------|-----------|-----------|-----------|
| | 2017 | 2018 | 2019 | June 30, |
| | RMB | RMB | RMB | 2020 |
| | (in thousands) | | | RMB |
| Contracted but not provided for in the Financial Information: | | | | |
| — Expenditure in respect of properties under development | 3,557,378 | 7,202,418 | 6,843,636 | 7,963,416 |

We have committed tenant arrangements ranging from six months to twenty years, most of which contain fixed rental provisions, for the properties we held for rental purpose. The table below sets forth our minimum operating lease commitments as of the dates indicated:

| | As of December 31, | | | As of |
|---|--------------------|------------------|------------------|------------------|
| | 2017 | 2018 | 2019 | June 30, |
| | RMB | RMB | RMB | 2020 |
| | (in thousands) | | | RMB |
| Within one year | 332,710 | 628,302 | 658,555 | 728,640 |
| In the second to the fifth year inclusive | 550,211 | 1,518,288 | 1,412,749 | 1,554,024 |
| After the fifth year | 208,410 | 457,118 | 402,086 | 442,295 |
| Total | 1,091,331 | 2,603,708 | 2,473,390 | 2,724,959 |

We intend to fund our capital and lease commitments principally from bank financings and proceeds from sales and pre-sales of our properties completed or under development.

Off-Balance Sheet Arrangements

Except for the contingent liabilities disclosed, we have not entered into any off-balance sheet arrangements or commitments to guarantee the payment obligations of any third parties. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing or hedging services with us.

QUALITATIVE AND QUANTITATIVE DISCLOSURE ABOUT MARKET RISK

We are exposed to various types of market risks, including credit risk, interest rate risk, and liquidity risk.

Credit Risk

The carrying amounts of bank deposits, and trade and other receivables included in the consolidated statements of financial position represent our maximum exposure to credit risk in relation to our financial assets. We have policies in place to ensure that sales of properties are made to buyers with appropriate financial strength and with appropriate percentage of down payment. In addition, we reserve the right to cancel the sales contracts in the event that the buyers default in payment and put the underlying properties back to the market for re-sale. The credit risk from sales of properties is therefore

limited. Other receivables mainly comprise receivables from related parties and deposits made in the ordinary course of business. We closely monitor these other receivables to ensure actions will be taken to recover these balances in the case of any risk of default.

The credit risk on amounts due from related parties is limited as our related parties are in good financial position. Other than the amounts due from related parties and Beijing Municipal People's Government, we have no significant concentration of credit risk on our receivables from counterparties and customers, with exposure spread over a number of counterparties and customers. Other than deposits with several banks with high credit ratings, we do not have any other significant concentration of credit risk on liquid funds. The credit risk on bank deposits is limited because the counterparties are mainly state-owned banks and with high credit ratings in the PRC.

Interest Rate Risk

Our interest rate risk relates primarily to our fixed-rate borrowings and variable-rate borrowings. Borrowings at fixed-rates expose us to fair value interest rate risk and borrowings at variable rates expose us to cash flow interest rate risk. We have not entered into interest rate swaps to hedge against our exposure to changes in fair values of our borrowings.

In addition, to the extent that we may need to raise debt financing in the future, upward fluctuations in interest rates will increase the cost of new debts. Fluctuations in interest rates can also lead to significant fluctuations in the fair values of our debt obligations and interest rate risks.

We currently do not use any derivative instruments to manage our interest rate risk. To the extent we decide to do so in the future, there can be no assurance that any future hedging activities will protect us from fluctuations in interest rates.

Foreign Exchange Rate Risk

We conduct our business primarily in Renminbi. We are exposed to foreign exchange rate risk on bank deposits. On July 21, 2005, the PRC government changed its policy of pegging the value of the Renminbi to the U.S. dollar. Under the new policy, the Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy has resulted in a gradual appreciation of the Renminbi against the U.S. dollar and, in turn, the Hong Kong dollar which value is linked to the U.S. dollar. The PRC government may take further actions that could cause future exchange rates to vary significantly from current or historical exchange rates. A depreciation in the Renminbi would (i) adversely affect the value of any dividends we pay to our shareholders outside the PRC and (ii) require us to use more Renminbi funds to service the same amount of any foreign currency debt (including the Notes). An appreciation in the Renminbi, however, would adversely affect the value of our foreign currency-denominated assets or any capital contributions we received in foreign currency if they are not converted into Renminbi in a timely manner. We do not have a formal hedging policy and have not entered into any foreign currency exchange contracts or derivative transactions to hedge our currency risk. However, our directors monitor our foreign exchange exposure closely and may, depending on the circumstances and trend of foreign currencies, consider adopting a significant foreign currency hedging policy in the future.

Liquidity Risk

The capital-intensive nature of our business exposes us to liquidity risk. We are exposed to liquidity risk if we are unable to raise sufficient funds to meet our capital commitments. To manage our liquidity risk, we monitor and maintain a level of cash and cash equivalents considered adequate by our management to finance our operations and mitigate the effects of fluctuations in cash flows.

NON-GAAP FINANCIAL MEASURES

We use EBITDA to provide additional information about our operating performance. EBITDA refers to our earnings before the following items:

- finance costs;
- depreciation and amortization;
- other gains and losses;
- share of results of an associate;
- share of results of a joint venture;
- income tax expense;
- other expenses;
- other income; and
- changes of fair value.

EBITDA is not a standard measure under IFRS. As the property development business is capital intensive, capital expenditure requirements and levels of debt and interest expenses may have a significant impact on the profit for the period of companies with similar operating results. Therefore, we believe the investor community commonly uses this type of financial measure to assess the operating performance of companies in our market sector.

As a measure of our operating performance, we believe that the most directly comparable IFRS measure to EBITDA is profit before taxation. We operate in a capital intensive industry. We use EBITDA in addition to profit before taxation because profit before taxation includes many accounting items associated with capital expenditures, such as depreciation, as well as non-operating items, such as amortization of intangible assets and interest income and interest expense. These accounting items may vary between companies depending on the method of accounting adopted by a company. By minimizing differences in capital expenditures and the associated depreciation expenses as well as reported tax positions, intangible assets amortization and interest income and expense, EBITDA provides further information about our operating performance and an additional measure for comparing our operating performance with other companies' results. Funds depicted by this measure may not be available for debt service due to covenant restrictions, capital expenditure requirements and other commitments.

The following table reconciles our profit before taxation under IFRS to our definition of EBITDA for the periods indicated.

| | Year ended December 31, | | | Six months ended June 30, | |
|--|------------------------------------|------------------|------------------|---------------------------|----------------|
| | 2017 | 2018 | 2019 | 2019 | 2020 |
| | RMB | RMB | RMB | RMB | RMB |
| | (in thousands, except percentages) | | | | |
| Profit before tax | 3,567,133 | 2,697,468 | 2,046,163 | 996,494 | 565,055 |
| Adjustments: | | | | | |
| Less: | | | | | |
| Other gains/(losses), net | 161,185 | 67,364 | 4,856 | (17,993) | (43,687) |
| Other income | 88,241 | 159,267 | 176,326 | 76,110 | 111,855 |
| Share of results of joint ventures | (936) | (11,939) | (19,786) | (5,992) | (8,088) |
| Share of results of associates | (6,014) | (10,905) | (565) | (5,364) | (1,247) |
| Change in fair value of investment properties | 955,743 | 907,791 | 1,061,366 | 531,751 | 238,363 |
| Add: | | | | | |
| Finance costs | 198,683 | 245,446 | 404,677 | 201,971 | 220,466 |
| Other expenses | 45,676 | 53,252 | 20,115 | 21,977 | 5,666 |
| Depreciation and amortization | 33,207 | 74,265 | 78,513 | 38,483 | 38,432 |
| Depreciation of right-of-use assets | — | — | 6,858 | 3,148 | 3,702 |
| Impairment losses under expected credit loss model, net of reversal | — | — | 27,213 | — | 5,178 |
| EBITDA | 2,646,480 | 1,958,853 | 1,361,342 | 683,561 | 541,303 |
| EBITDA margin | 39.0% | 29.6% | 16.8% | 18.1% | 16.3% |

Our definition of EBITDA should not be considered in isolation or construed as an alternative to profit for the period or as an indicator of operating performance or any other standard measure under IFRS. Our definition of EBITDA does not account for taxes and other non-operating cash expenses. Our EBITDA measures may not be comparable to similarly titled measures used by other companies. Investors should also note that EBITDA as presented herein may be calculated differently from Consolidated EBITDA as defined and used in the Indenture governing the Notes. See “Description of the Notes — Definitions” for a description of the manner in which Consolidated EBITDA is defined for purposes of the Indenture governing the Notes.

INDUSTRY OVERVIEW

The information in the section below has been derived, in part, from various PRC government publications unless otherwise indicated. This information has not been independently verified by us or the Initial Purchaser or any of our or its affiliates or advisors. The information may not be consistent with other information compiled within or outside the PRC.

THE CHINESE ECONOMY AND REAL ESTATE MARKET

Overview of the Chinese Economy

Since the PRC government started the profound economic reform more than 30 years ago, China has maintained strong economic growth. The nominal GDP of China increased at a CAGR of 9.1% from RMB64,128 billion in 2014 to RMB99,087 billion in 2019. The GDP per capita of China increased at a CAGR of 8.6% from RMB46,629 in 2014 to RMB70,892 in 2019 and the per capita disposable income increased at a CAGR of 8.0% from RMB28,844 in 2014 to RMB42,359 in 2019.

The table below shows the selected economic indicators of China for the periods indicated:

| | As of December 31, | | | | | | 2014-2019 |
|---|--------------------|--------|--------|--------|--------|--------|-----------|
| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | CAGR |
| Total population (million) | 1,368 | 1,375 | 1,383 | 1,390 | 1,395 | 1,400 | 0.5% |
| Nominal GDP (RMB billion) | 64,128 | 68,599 | 74,006 | 82,075 | 90,031 | 99,087 | 9.1% |
| Real GDP growth rate (%) | 7.3 | 6.9 | 6.7 | 6.8 | 6.6 | 6.1 | — |
| GDP per capita (RMB) | 46,629 | 50,028 | 53,680 | 59,201 | 64,644 | 70,892 | 8.6% |
| Real estate investment ⁽¹⁾ (RMB billion) . . | 9,504 | 9,598 | 10,258 | 10,980 | 12,026 | 13,219 | 6.8% |
| Per capita disposable income of urban residents (RMB) | 28,844 | 31,195 | 33,616 | 36,396 | 39,251 | 42,359 | 8.0% |
| Fixed-asset investment (FAI) (RMB billion) | 51,202 | 56,200 | 60,647 | 64,124 | 64,568 | 56,148 | 1.5% |
| Total Retail Sales of Consumer Goods (RMB billion) | 27,190 | 30,093 | 33,232 | 36,626 | 38,099 | 41,165 | 8.6% |

Sources: *China Statistical Yearbook (2015-2019)*, National Bureau of Statistics of China

(1) According to the National Bureau of Statistics of China, real estate investment includes investment by real estate developers and commodity property construction companies in the construction of house buildings, such as residential buildings, factory buildings, warehouses, hotels, guesthouses, holiday villages, office buildings, and the complementary service facilities and land development projects. Real estate investment excludes simple land transactions.

Such rapid growth was primarily the result of expanding government expenditure and infrastructure investment as well as increasing domestic consumption. In line with the rapid growth in GDP, real estate investment also experienced rapid growth. Real estate investment increased at a CAGR of 6.8% from RMB9,504 billion in 2014 to RMB13,219 billion in 2019. Retail sales of consumer goods increased at a CAGR of 8.6% from RMB27,190 billion in 2014 to RMB41,165 billion in 2019.

As a result of urbanization along with the economic growth, China experienced a rapid urbanization process. The PRC's urbanization continues to boost, contributing to the increase of urban population from 749 million in 2014 to 848 million in 2019, representing a CAGR of 2.5%. Such increase promoted the upsurge of urbanization rate, which in turn reached 60.6% in 2019, exceeding the goal set in New National Urbanization Plan (2014-2020) (《國家新型城鎮化規劃(2014-2020)》), which mentioned that the PRC would consistently promote the process of urbanization and the urbanization rate of the PRC was expected to reach 60% by 2020. The table below shows selected information on urbanization for the periods indicated:

| | As of December 31, | | | | | | 2014-2019 CAGR |
|--|--------------------|-------|-------|-------|-------|-------|-------------------|
| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | |
| Permanent population (million) | 1,368 | 1,374 | 1,383 | 1,390 | 1,395 | 1,400 | 0.5% |
| Urban population (million) | 749 | 771 | 793 | 813 | 831 | 848 | 2.5% |
| Rural population (million) | 619 | 603 | 590 | 577 | 564 | 552 | -2.3% |
| Urbanization rate (%) | 54.8 | 56.1 | 57.4 | 58.5 | 59.6 | 60.6 | — |

Source: National Bureau of Statistics of China

Per Capita Disposable Income

The wealth of urban residents is also growing rapidly along with the growth of the national economy. The per capita disposable income of urban residents in China increased at a CAGR of 8.0% from RMB28,844 in 2014 to RMB42,359 in 2019.

The Real Estate Market in China

China's economic growth has fueled the development of the real estate industry. Total real estate investment in China increased at a CAGR of 6.8% from RMB9,504 billion in 2014 to RMB13,219 billion in 2019. In the meantime, GFA under construction increased significantly. Demand for properties, driven by economic development, urbanization and increased disposable incomes, has played a key role in the growth of the real estate industry as well as housing prices. The total GFA sold increased at a CAGR of 7.3% from 1,206 million sq.m. in 2014 to 1,716 million sq.m. in 2019. The average selling price of properties increased at a CAGR of 8.0% from RMB6,324 per sq.m. in 2014 to RMB9,310 per sq.m. in 2019.

The table below shows key real estate market indicators in China for the periods indicated:

| | As of December 31, | | | | | | 2014-2019 CAGR |
|--|--------------------|-------|--------|--------|--------|--------|-------------------|
| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | |
| Total real estate investment (RMB billion) | 9,504 | 9,598 | 10,258 | 10,980 | 12,026 | 13,219 | 6.8% |
| Total GFA under construction (million sq.m.) | 7,265 | 7,357 | 7,590 | 7,815 | 8,223 | 8,938 | 4.2% |
| Total GFA completed (million sq.m.) | 1,075 | 1,000 | 1,061 | 1,015 | 935 | 959 | -2.3% |
| Total GFA sold (million sq.m.) | 1,206 | 1,285 | 1,573 | 1,694 | 1,717 | 1,716 | 7.3% |
| Average selling price of real estate property (RMB per sq.m.) | 6,324 | 6,793 | 7,476 | 7,892 | 8,738 | 9,310 | 8.0% |

Source: National Bureau of Statistics of China

REGIONAL ECONOMY AND PROPERTY MARKET

Beijing-Tianjin-Hebei Region

Beijing-Tianjin-Hebei Region comprises of Beijing, capital of the PRC, Tianjin, one of the four directly-administered municipalities of the PRC, and several cities in Hebei province, with a total area of approximately 215,000 million sq.m.. Hebei province, though less developed than Beijing and Tianjin, largely benefits from the relocation of industries from Beijing due to geographic proximity. As of December 31, 2019, Beijing-Tianjin-Hebei Region had a resident population of approximately 113.0 million and a GDP of RMB8,500.0 billion. One of the component region, Hebei province, experienced stable economic growth and its GDP increased from approximately RMB2,942.1 billion in 2014 to RMB3,510.5 billion in 2019, with a CAGR of 3.6%.

Southern China

Represented by The Greater Bay Area (大灣區經濟帶) and the Economic Zone on the West Side of the Straits (海峽西岸經濟區), Southern China region is the most fast-growing and prosperous region in China.

The Greater Bay Area is one of the most densely populated and economically prosperous regions in Guangdong province. The Guangdong-Hong Kong-Macau Greater Bay Area was established pursuant to Guangdong-Hong Kong-Macau Greater Bay Area Development Planning (《粵港澳大灣區發展規劃綱要》) issued in February 2019, aiming to enable further development of the area through leveraging different member cities' respective strengths that are indeed complimentary — cities in the Pearl River Delta (珠江三角洲), such as Shenzhen and Foshan, have developed comprehensive industry systems, whereas Hong Kong and Macau have highly-developed service industries. The Guangdong-Hong Kong-Macau Greater Bay Area had a total resident population of more than 72.6 million as of December 31, 2019, and has been attracting inflows of talents over the recent years. Specifically, in 2019, Shenzhen and Foshan each entertained an increase of resident population of 0.4 million and 0.3 million, respectively. The Guangdong-Hong Kong-Macau Greater Bay Area has also been attracting investments, including investments in properties. Specifically, in 2019, Foshan entertained an increase in property investments of 6%.

The main body of the Economic Zone on the West Side of the Straits comprises the Taiwan Strait, Fujian province and surrounding areas. The economic zone links the north and the south of the Pearl River Delta and the Yangtze River Delta. It is an important part of China's coastal economic zone and plays an important role in the layout of regional economic development in the country. According to the "State Council's Opinions on Supporting Fujian Province to Speed up the Construction of the Economic Zone on the West Coast of the Straits" (《國務院關於支持福建省加快建設海峽西岸經濟區的若干意見》), the region is an important political strategic point, a comprehensive channel for serving the development of new opening-up to world, an important base for advanced manufacturing industries and an important natural and cultural tourism centre. Meanwhile, the region is also the core area of the Maritime Silk Road in the 21st century.

The Yangtze River Delta

Yangtze River Delta had experienced prosperity for the past ten years and the economy is still growing year by year. The Yangtze River delta region played a significant role in the economic growth of the Eastern China region. The Yangtze River Delta region is located along the east coast of China and is one of the most densely populated areas in China. It covers the megacity of Shanghai and three neighbouring provinces Jiangsu, Zhejiang, and Anhui. Based on the "Development Plan for Yangtze City Cluster" (長江三角洲城市群發展規劃) published by Development and Reform Commission in 2016, the Yangtze River Delta region occupies a total land area of 21.17 million square kilometres and as of the end of 2017, it had a population of approximately 150 million, accounting for 2.2% of total land area and 11% of total population in China.

The Yangtze River Delta is one of the most developed regions in China. According to the statistics, it generated the nominal GDP of RMB20.4 trillion in 2019, contributing about 20.6% of national GDP. The region is expected to continue to play a significant role in China's economy with its transformation into a world-class city cluster.

North-western China

Northwest China Region covers minority communities such as Shaanxi, Gansu, Qinghai, Xinjiang, Ningxia and Gansu provinces. The region is the main component of the Silk Road Economic Belt. The Silk Road Economic Belt is a vast area with rich natural resources, mineral resources, energy resources, land resources and valuable tourism resources. It is called the strategic energy and resource base in the 21st century. However, due to geographical location and natural environment, the economic development of these areas is relatively backward compared with southeastern areas. However, some cities, such as Xi'an and Lanzhou, have made gratifying progress in economy and society in recent years, relying on historical and cultural resources, tourism resources and natural mineral resources.

South-Western China

Southwest China is one of the geographical regions of China. It is defined by governmental bureaus to include the municipality of Chongqing, the provinces of Sichuan, Yunnan and Guizhou, and the Tibet Autonomous Region. The total area of the region is 2.5 million square kilometres, accounting for 24.5% of China's land area. The region is complex in terrain and rich in natural resources, and it is also the region with the largest ethnic minority in China. Benefiting from the rich natural and cultural landscape resources, the region has a number of well-known tourist attractions. Nowadays, the south-western region has become an important growth pole of China's tourism industry and a world-renowned tourist destination. Meanwhile, this region has become one of the important development areas for "China Western Development Strategy" since the 21st century. The level of development among cities in this region varies greatly. Among them, Chengdu and Chongqing are the most developed cities in the southwest and even the mid-western region. Southwest China Economic Region presents a promising economic growth potential with the implementation of several national stimulus policies. Major cities such as Kunming and Guiyang have achieved rapid and suitable economic development. Moreover, the accelerated development of Cheng-Yu Economic Zone (成渝經濟圈) is expected to lead to a promising economic development in both Chengdu and Chongqing. In fact, these two core cities have achieved double-digit GDP growth in recent years. Moreover, the strategic revival of Southern Silk Road (南方絲綢之路) helps Kunming city positioning itself as the communication hub with Southeast Asia countries and it contributes to a relatively high GDP growth rate for years. In Guizhou Province, the major cities such as Guiyang and Zunyi also presented much faster GDP growth rates compared to the national level.

In terms of real estate market, due to relatively looser monetary policies and limited investment options, capital inflow to the real estate market has increased significantly. As a result, cities within the region have generally seen double-digit CAGRs of real estate investment growth. Particularly, tier-three and tier-four cities have demonstrated remarkable growth. The average price in many cities in the region has experienced significant growth.

Benefited from the robust economic growth prospect and improvement of urbanization rate, the size of real estate market in Southwest China Economic Region will keep expanding in coming years. Therefore, it is estimated that the demand of Chengdu and Chongqing, which have been classified as the pre-tier-1 cities (新一線城市), are likely to be supported. As a result, it is expected that the GFA of residential sold and the average sales price of residential will continue to grow at a steady pace.

Central China

Central China covers Henan province, Hubei province and Hunan province with a total area of approximately 560,000 million sq.m.. The Development Plan for Central China Promulgated Under The 13th Five-Year Plan (《促進中西部發展促進中部地區崛起「十三五」規劃》) positioned Zhongyuan Metropolitan Cluster as one of the key trans-provincial metropolitan clusters, the development of which would further enable development of the entire mid-China area. As of December 31, 2019, Central China had a resident population of approximately 225.0 million. Central China (華中) experienced rapid economic growth and its nominal GDP increased from approximately RMB8,935.5 billion in 2014 to RMB13,984.0 billion in 2019, with a CAGR of 9.4%.

Notes:

- (1) Our controlling shareholder and his spouse, Mr. Zhang Zhangsun and Ms. Ruan Wenjuan, will each provide a Personal Guarantee for the benefits of holders of the Notes.
- (2) All capital stock of Langfang Guoxing, as Pledge Entity A, held by Glory (HK) Investment Limited (formerly known as Glory Real Estate (HK) Investment Limited (國瑞地產(香港)投資有限公司), as Pledgor A, is subject to the Share Charge A.
- (3) All capital stock of Qidong Glory, as Pledge Entity B, held by All Affluent Holdings (HK) Limited, as Pledgor B, is subject to the Share Charge B.
- (4) Qidong Glory, as Pledge Entity B, owns and operates Howard Johnson Glory Plaza Qidong (敬東國瑞豪生大酒店) located in Qidong City, Jiangsu Province, China.
- (5) Langfang Guoxing, as Pledge Entity A, owns, develops and operates the number 2 parcel of the Company's Yongqing Project located in Langfang City, Hebei Province, China.

BUSINESS

OVERVIEW

We are a fast growing residential property developer with commercial property operations. We focus on developing residential projects and large-scale mixed-use complex projects in the PRC. We also selectively retain the ownership of a substantial amount of self-developed commercial properties with strategic value to generate stable and recurring rental income. In addition, we undertake primary land development projects in order to access potentially available land reserves for property development and diversify our sources of income.

Founded in Guangdong Province, we commenced our property development operations in the late 1990s and since then have significantly grown our business in Beijing and successfully expanded into other selected cities with rapid growth in China, including, amongst others, Haikou and Wanning in Hainan Province, Shantou and Foshan in the Pearl River Delta region, Shenyang in Liaoning Province, Zhengzhou in Henan Province, Langfang in Hebei Province, Xi'an in Shaanxi Province, Shenzhen in Guangdong Province, Suzhou and Qidong in Jiangsu Province and Ezhou in Hubei Province. As a result, we have established a strategic nationwide coverage that is centered around Beijing and the Pearl River Delta region and covers a number of selected major areas with rapid economic growth in China. We plan to continue to deepen the operation in cities where we have strategic presence, focused on the key cities in the four major regions, being the Beijing-Tianjin-Hebei region, the Yangtze River Delta region, the Pearl River Delta region and the economic corridor of the BRI. In view of the increased policy and financial pressure emerged in first-tier cities including Beijing, Shanghai, Guangzhou and Shenzhen, we will strictly control the risks, remain cautious in countercyclical land acquisition and avoid acquisition of any land at a high price. At present, the core districts in second-tier cities are capable of competing with first-tier cities, and the outbound expansion trend of second-tier cities has emerged with obvious urban spillover effects, new districts in second-tier cities are good for investment. Meanwhile, the demand for low-density products for improved residential purpose is gradually increasing in areas surrounding second-tier cities, giving rise to development opportunities in the future to some extent. In respect of third- and fourth-tier cities, we select land with strong supporting resources, such as the government, schools, hospitals, subways, core commercial areas and other regional strong resources, with a view to avoiding the risks arising from limited market capability faced by third- and fourth-tier cities.

We operate in four business segments: property development, primary land construction and development services, property investment and property management and related services. The following is a brief overview of our current business segments:

- **Property development:** We focus on developing residential projects and large-scale mixed-use complex projects that typically consist of a combination of residential properties with a variety of commercial properties. We offer a wide range of residential properties to meet the demand of the middle-to-upper class customers. In addition, we also develop commercial properties for sale or lease. We plan to develop Grade A office buildings in central business districts of first-tier cities and second-tier cities that are provincial capitals in the PRC as we expect market demand for such properties will grow significantly. As of June 30, 2020, we had completed 16 projects and certain phases of 13 projects with a total GFA of 7.8 million sq.m.
- **Primary land construction and development services:** We undertake primary land development projects in order to access potentially available land reserves for property development and diversify our sources of income. Primary land development refers to the process of preparing land to conditions ready for public tender, auction and listing-for-sale. It typically involves relocating existing business establishments and residents on the land, demolishing existing buildings and other structures, clearing the site and installing basic infrastructure for future commercial property development. As of June 30, 2020, we had completed 30 primary land

development projects and we were undertaking primary land development projects and products developed under urban renewal projects with a total development area of 5.8 million sq.m. and 51.6% of which were in Shenzhen.

- Property investment: We selectively retain the ownership of a substantial amount of self-developed commercial properties with strategic value to generate stable and recurring rental income. As of June 30, 2020, we had investment properties located at commercial centers in Beijing, Shenyang, Shantou, Shenzhen Haikou and Foshan with a total GFA of 983,960 sq.m.
- Property management and related services: We provide property management and related services to owners of the properties developed by us and generate income from providing such services.

With respect to both “sales” and “land reserves”, we place our core resources in first-tier and second-tier cities as well as certain hot-spot cities in China. Based on our contracted sales data for the six months ended June 30, 2020, our sales performance was mainly from Beijing, Foshan and Suzhou, amounting to RMB4,057.8 million, RMB865.5 million and RMB556.5 million, respectively, representing 54.3%, 11.6% and 7.4% of our total contracted sales, respectively.

We have acquired substantial and strategically located land reserves at low costs to support our property development operations. As of June 30, 2020, we had land reserves with a total GFA of 15.0 million sq.m. in 21 cities in the PRC, comprising a total GFA of 1.1 million sq.m. completed but remaining unsold, a total GFA of 7.0 million sq.m. under development and a total GFA of 6.9 million sq.m. held for future development. We implement a standardized and streamlined process for developing property projects, supported by a comprehensive information technology system and a proprietary bank of product designs, which, together with our two-tier management structure and centralized procurement practice, enables us to enhance our operational efficiency while effectively managing our risks.

For the years ended December 31, 2017, 2018 and 2019, our contracted sales were RMB14,876.7 million, RMB21,912.8 million and RMB23,915.4 million (US\$3,385.0 million), respectively, representing a CAGR of 26.8%. For the six months ended June 30, 2020, our contracted sales were approximately RMB7,478.8 million (US\$1,058.6 million), representing a decrease of 41.7% as compared to the six months ended June 30, 2019. The contracted GFA was 375,746 sq.m., representing a decrease of 37.9% as compared to the six months ended June 30, 2019. Contracted sales of the Company, by geographical location, were mainly from Beijing, Foshan and Suzhou, amounting to approximately RMB4,057.8 million, RMB865.5 million and RMB556.5 million, respectively, representing 54.3%, 11.6% and 7.4% of our total contracted sales, respectively.

For the years ended December 31, 2017, 2018 and 2019 and for the six months ended June 30, 2019 and 2020, our revenue was RMB6,787.4 million, RMB6,612.5 million, RMB8,093.2 million (US\$1,145.5 million), RMB3,774.9 million and RMB3,322.4 million (US\$470.3 million), respectively, and our total comprehensive income for the same periods was RMB2,283.2 million, RMB1,562.0 million, RMB1,222.5 million (US\$173.0 million), RMB572.8 million and RMB281.0 million (US\$39.8 million), respectively. Revenue from property development for the year ended December 31, 2018 was RMB5,924.6 million, representing a decrease of 7.2% as compared to the year ended December 31, 2017. This decrease was primarily due to the uneven pace of completion and delivery for the year ended December 31, 2018. The increase in revenue from 2018 to 2019 was primarily due to the increased revenue from property development. Revenue from property development for the year ended December 31, 2019 was RMB7,256.7 million, representing an increase of 22.5% as compared to the year ended December 31, 2018. This increase was primarily due to the increase of property development GFA delivered for the year ended December 31, 2019. Revenue from property development for the six months ended June 30, 2020 was RMB2,915.4 million (US\$412.6 million), representing a decrease of 14.5% as compared to the six months ended June 30, 2019. This decrease was primarily due to the uneven pace of completion and delivery for the period.

OUR COMPETITIVE STRENGTHS

We believe the following are our key competitive strengths to support our sustainable and profitable growth:

We have acquired substantial and strategically located land reserves at low costs

We have acquired a substantial amount of low-cost land reserves in strategic locations with high growth potential. As of June 30, 2020, we had land reserves comprising a total GFA of 15.0 million sq.m., with an average cost of land acquisition of RMB2,890 per sq.m. We believe the following factors have contributed to our ability to acquire strategically located land reserves at relatively low costs to support our sustainable and profitable growth:

- We have substantial experience and expertise in the real estate industry in China through over 20 years of operations which enable us to identify land parcels with significant development potential for property development and acquire land parcels at early development stages of their respective areas;
- We have substantial experience in developing large-scale mixed-use complex projects combining residential properties with various commercial properties which tend to substantially improve the local living and commercial environment. As a result, such projects are normally well-received by the local communities, which enables us to have relatively easy access to land reserves from the local government authorities;
- We have established a strong brand in the cities where we have property development projects and our brand name “Glory City” is well recognized in the market;
- We have substantial experience in primary land development and our projects are well-received by the local communities; and
- We have stable and substantial cash flows generated from our investment properties to support our land acquisitions.

Our investment properties located at commercial centers provide us with a stable and recurring revenue source

We selectively retain the ownership of a substantial amount of self-developed commercial properties with strategic value to generate stable and recurring rental income. As of June 30, 2020, we had investment properties located in seven core cities including Beijing and Shenzhen, with a total GFA of 983,960 sq.m., comprising primarily shopping malls, offices, specialized markets, retail outlets and siheyuan (四合院). All of our investment properties are located at commercial centers in their respective cities. For example, our Beijing Glory Mall (北京國瑞購物中心), with a GFA held for investment of 159,999 sq.m., is located in the Chongwai Avenue catchment (崇文商圈). Beijing Glory Mall is well-received among young, fashion-oriented consumers due to its distinctive design and commercial value.

We maintain a diversified tenant portfolio for our investment properties. Our tenants include well-known overseas and domestic brand owners. We have entered into strategic cooperation agreements with various tenants, including catering and entertainment operators, apparel and home furnishing manufacturers and retail chains for our investment properties, which enables us to rapidly expand our investment property portfolio into selected regional markets. For the years ended December 31, 2017, 2018 and 2019 and for the six months ended June 30, 2019 and 2020, our investment properties generated rental income of RMB310.3 million, RMB510.2 million, RMB608.5 million (US\$86.1 million), RMB285.1 million and RMB278.8 million (US\$39.5 million), respectively.

In addition to generating stable and recurring rental income, our substantial amount of investment properties also provides us with significant flexibility in business planning and operations and enhances our ability to manage financial risks. For example, we are able to leverage our substantial amount of investment properties to obtain funding from financial institutions to support our property development. In addition, as all of our investment properties are located at commercial centers in their respective cities, we expect to enjoy significant capital appreciation over the long term.

Our primary land construction and development business allows us to access strategically located land reserves

We have substantial experience in primary land development and our projects are well-received by the local communities. We undertook the primary land development of the sites of Beijing Fugui Garden in 2001 and Beijing Glory City in 2003, both of which were listed by the Beijing Municipal People's Government (北京市人民政府) as key renovation projects of dangerous old houses (重點危舊房改造項目). Our performance significantly contributed to the urbanization in the former Chongwen District of Beijing and improved the local living environment, which was well-received by the local communities. We also completed the Beijing Hademen Center project in 2012 and subsequently successfully obtained the land use rights of the relevant sites. As of June 30, 2020, we were undertaking primary land development projects and products developed under urban renewal projects with a total development area of 5.8 million sq.m. and 51.6% of which were in Shenzhen. We identify and evaluate primary land development opportunities by conducting comprehensive studies of local market trends and conditions and analyzing, among other items, any government plans for the future use of land and the estimated return on investment of primary land development operations. We believe our substantial experience and strong reputation in primary land development have facilitated us, and will continue to facilitate us, to procure opportunities to engage in primary land development at strategic locations, which provides us with a direct avenue towards our land bank strategy for our property development business.

We have established a strategic nationwide coverage

Founded in Guangdong Province, we commenced our property development operations in the late 1990s and since then have significantly grown our business in Beijing. Leveraging our strong brand and execution capabilities as well as substantial expertise and experience in property development, we have successfully expanded into other selected cities with rapid growth in China, including, amongst others, Haikou and Wanning in Hainan Province, Shantou and Foshan in the Pearl River Delta region, Shenyang in Liaoning Province, Zhengzhou in Henan Province, Langfang in Hebei Province, Shenzhen in Guangdong Province, Xi'an in Shaanxi Province and Suzhou and Qidong in Jiangsu Province. As a result, we have established a strategic nationwide coverage that is centered around the Beijing-Tianjin-Hebei region, the Yangtze River Delta region and the Pearl River Delta region and covers a number of selected major areas with rapid economic growth in China. All these cities are either located in or in close proximity to national or regional economic centers and have easy access to transportation networks:

- Beijing is the capital as well as political, economic, transportation, cultural and educational center of China. Beijing accommodates the headquarters of numerous large-scale State-owned enterprises, reputable domestic private enterprises and multinational enterprises. According to the "Report on Economic Development of Beijing (2012 — 2013)" (北京經濟發展報告) (2012 — 2013) issued in June 2013, one of the blue book series of Beijing Academy of Social Sciences (北京市社會科學院), Beijing has stepped into the early stage of a developed economy;
- Hainan Province is a popular tourist destination and attracts millions of overseas and domestic tourists each year. In line with the development plan of Hainan International Tourism Island of the PRC government, the economy and property market of Haikou and Wanning are expected to continue to grow rapidly;

- Shantou is one of the five special economic zones established by the PRC government in the 1980s, the economic and cultural center of East Guangdong Province and one of the most densely populated cities in China;
- Foshan is located in the central Pearl River Delta region and is in close proximity to the three major transportation hubs in Guangzhou, namely, Guangzhou New Baiyun International Airport, Guangzhou Nansha Port and Guangzhou Railway Station;
- Shenyang is the capital of Liaoning Province and the economic, cultural, transportation and trading center of Northeast China;
- Zhengzhou is the capital of Henan Province and a major transportation hub in central China;
- Langfang is located in the Bohai Economic Rim. It is a satellite city of Beijing and is regarded as the corridor connecting Beijing and Tianjin;
- Xi'an is the capital of Shaanxi Province and the economic and cultural center of Shaanxi Province;
- Qidong is located in the Yangtze River Delta Region. With excellent natural resources, convenient transportation, developed economy and favorable industry policy environment, Qidong has become one of the major receiving areas for the spillover effect of first-tier cities in recent years;
- Shenzhen is a major city in Guangdong Province and China's first special economic zone. Throughout its years of development, Shenzhen has become one of the four tier-1 cities in China and one of the three major financial centers in China; and
- Ezhou is a member city of Wuhan city circle and a major transportation hub located in eastern Hubei Province. Throughout China's history, Ezhou has remained an important historical and cultural city with its strategic position along the middle part of the Yangtze River.

We plan to continue to deepen the operation in cities where we have strategic presence, focused on the key cities in the four major regions, being the Beijing-Tianjin-Hebei region, the Yangtze River Delta region, the Pearl River Delta region and the economic corridor of the BRI. We believe that our strategic nationwide coverage has laid a solid foundation for our sustainable and profitable growth and we are well-positioned to capitalize on the opportunities in the property market in China.

We have an established track record in developing large-scale mixed-use complex projects

We develop large-scale mixed-use complex projects that typically consist of a combination of residential properties with a variety of commercial properties with the following features:

- All of our large-scale mixed-use complex projects are located at commercial centers in their respective cities. Therefore, we expect our customers will enjoy significant capital appreciation over the long term.
- In developing large-scale mixed-use complex projects, we aim to satisfy the one-stop living and consumption needs of our target customer groups. We therefore include a mix of commercial properties, including retail outlets, shopping malls, offices, hotels, specialized markets and SOHO apartments with urban-life functionalities, to complement residential properties in such complexes. These projects tend to substantially improve the local living and commercial environment, which in turn increases the value and marketability of our properties.

We expect increasing demand for such large-scale mixed-use complex projects to continue as the urbanization process in China continues and the population of the middle-to-upper class and their demand for high-quality life style continues to increase.

We have diverse sales channels and an effective sales and marketing team

We have established a professional sales and marketing team and we provide competitive compensation to our sales and marketing team, which is linked to the sales prices and the terms of payment collection, in order to increase our sales and accelerate cash flow. Our marketing and planning management center is responsible for the overall sales and marketing of all our projects and participates in the entire property development process, including site selection, product positioning, project design and budget planning. Such involvement by our marketing and planning management center throughout the property development process enables us to deliver products catered to market demand.

We also engage international and domestic third-party real estate sales agencies, including Centaline, Sys win, Union-lucky and Hopefluent, to form a collective sales force and compete with our in-house sales and marketing team, which not only incentivizes our staff, but also enables us to benefit from the quality customer bases of such third-party agencies and enhance our brand recognition in the market.

We have established a strong brand supported by our product design and strict quality control

We were awarded “2016 Gold Hong Kong Shares - The Most Socially Responsible Listed Company (2016年度金港股最具社會責任上市公司)” by Zhitong Finance (智通財經) and Tonghuashun Finance (同花順財經) in 2017, “2016 China Mainland Real Estate Company Top 10 listed in Hong Kong in terms of Financial Soundness and Investment Value Ranking (中國大陸在港上市房地產公司財務穩健TOP10, 投資價值TOP10)” by Enterprise Research Institute, Development Research Center of the State Council (國務院發展研究中心企業研究所), Real Estate Research Institute of Tsinghua University (清華大學房地產研究所) and China Index Academy (中國指數研究院) in 2016 and Gold Phoenix Global Chinese Real Estate “2016 Annual Award of Enterprise of Most Potential Value” (2016金鳳凰全球華人地產“年度企業最具潛力價值獎”) by Ifeng.com (鳳凰網), Phoenix TV (鳳凰衛視) and house.ifeng.com (鳳凰房產) in 2016. We were recognized as one of the “2016 China Real Estate Top 100 Enterprises (2016中國房地產百強企業)” by Enterprise Research Institute, Development Research Center of the State Council (國務院發展研究中心企業研究所), Real Estate Research Institute of Tsinghua University (清華大學房地產研究所) and China Index Academy (中國指數研究院) in 2016. Our Beijing Hademen Center (北京哈德門中心) project was awarded “New Landmark Buildings of 100 Cities for 2016-2017 (2016-2017中國百城建築新地標)” by China Index Academy (中國指數研究院) in 2016. We were recognized as one of the “2017 China TOP 100 Real Estate Developers” (“2017中國房地產百強企業”) by Enterprise Research Institute, Development Research Center of the State Council (國務院發展研究中心企業研究所), Real Estate Research Institute of Tsinghua University (清華大學房地產研究所) and China Index Academy (中國指數研究院) in 2017. In 2018, we were recognized as one of the 2018 Best 100 of China Real Estate Developers (2018中國房地產開發企業100強) jointly by China Real Estate Association (中國房地產業協會), Shanghai E-House Real Estate Research Institute (上海易居房地產研究院) and China Real Estate Appraisal Center (中國房地產測評中心). In 2019, we were recognized as one of 2019 China’s top 5 listed real estate companies for risk control (2019中國房地產上市公司風險控制5強) by China Real Estate Association (中國房地產業協會)/China Real Estate Appraisal Center (中國房地產測評中心). We were recognized as one of Top 10 Responsible Real Estate Companies in China in 2019 (2019中國房地產開發企業責任地產10強) by China Real Estate Association (中國房地產業協會)/China Real Estate Appraisal Center (中國房地產測評中心) in 2019. In 2020, we ranked 17th in the TOP30 list of real estate companies in Beijing in 2019 (2019年北京市房企全口徑金額榜TOP30第17位) by CRIC China (克而瑞資料研究中心). For more information about our awards and recognitions, see the section entitled “— Awards and Recognitions.” We have established a strong brand in the cities where we have property development projects. As a result of our strong brand, we are able to sell our products at prices higher than the average market prices for some of our property projects, such as the residential

properties of Haikuotiankong Glory City and Zhengzhou Glory City. In addition, we have been undertaking primary land development activities and developing large-scale mixed-use complex projects, both of which tend to significantly improve the local living and commercial environment, thus enhancing our corporate image and reputation.

We are able to constantly improve our product design to meet the evolving market demand

We have a dedicated in-house design team with more than 100 members at our headquarters responsible for the overall planning and design of our projects. Our in-house design team comprises specialists in various areas in our project development, including planning, construction, structure, mechanics, gardening and decoration. Members of our in-house design team hold various qualifications; they include national certified architects, certified structural engineers and certified urban planners. Our in-house design team enables us to provide designs tailored to the specific needs of our targeted customer base and market. In addition, our in-house design capability enables us to effectively manage our costs by optimizing project design, such as the structure and materials to be used, at the early stages of the property development process.

Over the years, we have developed a proprietary bank of product designs featuring neoclassical architectural styles and encompassing various structural layouts such as high-rise apartments and garden houses. These product designs can be quickly fine-tuned and applied to suit the tastes of customers in a broad range of markets. In addition, during our years of operations in the property development industry in China, we have established a strategic nationwide coverage and have been able to offer a wide range of products that capture the specific preferences and needs of targeted customer base, which offers us an in-depth understanding of the demand in different markets. As a result, we are able to constantly improve our product designs to meet the evolving market demand in a flexible and efficient manner without compromising quality.

Leveraging our in-depth understanding of the property market, we have been able to establish long-term cooperation relationships with a number of selected third-party design firms to supplement our in-house design capability. For example, we normally engage international design firms such as WY Design International Limited to provide conceptual design for our projects to meet the market trends. For construction drawing design, we normally engage domestic design firms with Grade A qualifications that work closely with those international conceptual design firms. We also engage international and domestic design firms including Belt Collins International (HK) Limited and Ricky Wong Designers Ltd. for the landscape and interior design of some of our projects. We have entered into strategic cooperation agreements with the Ninth Design Institute of China Building Technique Group Co., Ltd., which was founded and is controlled by China Academy of Building Research, to provide technical support and services. China Academy of Building Research is a large-scale State-owned enterprise under the direct supervision of the SASAC and the only national scientific research institution in the architectural industry in China. Our in-house design team works closely with these design firms to translate designs into detailed development proposals and actively monitors the progress and quality of the appointed design firms to ensure that their work meets our specifications. In addition, we have adopted strict criteria in our selection of construction contractors for the construction of our projects to ensure that the construction workmanship complies with both of our product design and quality standards.

We have an effective management structure with a standardized and streamlined process

We implement a two-tier management structure, with our headquarters as the first tier and the regional project companies as the second tier, to balance operational efficiency with risk management. Our headquarters is responsible for making strategic decisions including product positioning as well as overall planning for acquiring land reserves and developing projects, while the regional project companies are responsible for the day-to-day operations of their respective property development projects. This management structure ensures that our overall strategies are effectively implemented throughout our organization. In addition, our management structure also provides our regional project companies with the appropriate autonomy to adapt to local situations.

Our management structure is supported by a comprehensive information technology system, which comprises various components covering operations planning, financial and capital management, tendering and procurement, real-time construction progress monitoring, cost management, sales and property management and our office automation platform. Through our information technology system, our management and employees can, among other things, access the latest sales and collection information, approve contracts, make payment instructions and review the cost status within their authorization level on a real-time basis. Our use of information technology allows us to maintain a high degree of intra-group transparency, enables us to streamline the allocation of responsibility and authority and facilitates our decision-making process.

In addition, based on our substantial experience in developing property projects in China, we have developed a standardized and streamlined property development process. We apply our standardized property development process across our entire value chain of business operations, including site selection, project positioning, product design, brand promotion, procurement, construction, quality control, sales and marketing and customer services. We implement centralized procurement for procuring construction materials and equipment to take advantage of economies of scale. We also apply standardized designs with necessary adjustments tailored for the local markets, which enables us to provide product designs to suit local tastes in a timely manner. In addition, our standardized processes of selecting construction contractors and procuring construction materials and equipment enable us to ensure the quality of our properties and effectively control costs. We believe our standardized and streamlined property development process is a key factor for rapidly replicating our products and delivering properties to meet the demand of various types of customers.

As a result, through our integrated management structure and our standardized and streamlined property development process, we are committed to maximizing our investment return by shortening the development cycle, which in turn improves our operating cash flow.

We have a highly experienced and motivated senior management team

The key members of our senior management team have substantial expertise and experience in property development and corporate management. Chairman Zhang has more than 20 years of experience in the PRC real estate industry. Other members of our senior management team have an average of over 16 years of relevant experience in the real estate industry. In particular, our founder, Chairman Zhang, has served us for nearly 20 years and five other members of our senior management team have served us for over 13 years. Despite the significant fluctuations in the property market in China in recent years, under the leadership of our management, we have been rapidly growing our business in a sustainable and profitable manner. We believe our experienced senior management team has contributed to our success and will continue to be a critical factor for our expansion and long-term growth.

In addition, we have a team of qualified and dedicated employees with substantial experience and expertise in property development, planning, design, finance, financing and other relevant areas. We provide our employees with continuing vocational training by external and internal experts to enhance their competency. We have adopted a staff remuneration policy that offers competitive compensation to our employees. Our remuneration structure generally consists of a base salary, quarterly performance-based bonuses and a long-term share option scheme. We believe our staff remuneration policy offers competitive compensation and enables us to attract and retain talents.

OUR STRATEGIES

Our goal is to become a leading property developer in the PRC. We plan to implement the following strategies to achieve our goal:

Focus on Beijing and the Pearl River Delta region, and identify other suitable markets with high growth potential

We plan to focus on Beijing and the Pearl River Delta region, and identify other suitable markets with high growth potential for our further expansion in the next five to 10 years and we believe we are well-positioned to leverage our competitive strengths to capitalize on expected continuous economic growth in these regions.

We intend to continue to devote substantial resources to expanding our business in Beijing and its neighboring areas. We believe that the property market in Beijing and its neighboring areas has enormous growth potential. As of June 30, 2020, we have a mixed-use complex project under development with a completed GFA of 140,057 sq.m. located within the Second Ring Road, namely, Beijing Hademen Center. Beijing Hademen Center comprises primarily a shopping mall and a high-rise Grade A office building, all of which we intend to hold as investment properties. We believe our existing projects will enable us to maintain our leading position in the property market within the Second Ring Road of Beijing. In addition, our sizeable land reserves in Langfang enable us to benefit from the rapid growth in the regional economy centered around Beijing. We are developing a large-scale residential project in Langfang, comprising high-rise apartments, stand-alone houses, townhouses, retail outlets and a hotel. This project will be in close proximity to Beijing's second international airport, which is expected to facilitate rapid regional economic growth. Therefore, we believe our land reserves in Langfang will be able to enjoy significant capital appreciation. We will actively explore additional opportunities in Beijing and its neighboring areas to develop projects with a view to becoming a leader in this market.

In the Pearl River Delta region, based on our existing operations in Shantou and Foshan, we plan to implement our expansion plan with a focus on Guangzhou and Shenzhen (for example, our recent Nanshan project in Shenzhen) to rapidly increase our market share in this region. We expect the property market in the Pearl River Delta region, especially in Guangzhou and Shenzhen, to continue to grow. Accordingly, we plan to devote significant resources to developing and expanding our business in these two cities. In addition, we plan to increase our research efforts to identify other suitable markets with high growth potential and enter those markets when appropriate opportunities arise.

We believe our in-depth knowledge of the regional property markets developed over our years of operations will be instrumental to implementing our expansion strategy. In addition, our strong execution capabilities, effective management structure combined with standardized and streamlined property development process have formed a solid foundation for rapid expansion and penetration into the selected new markets, and successful acquisition and development of additional projects. We plan to continue to adopt a prudent and disciplined approach when selecting target cities for expansion, taking into account timing and market conditions to ensure our financial performance and liquidity.

Continue to maintain an optimal mix of properties for sale and for investment, while further strengthening our well-recognized brand name

We intend to strategically increase the proportion of investment properties in our property portfolio. We believe that the strategic retention of the long-term ownership of selected commercial properties will generate stable and recurring rental income, thereby enhancing the sustainability of our revenue streams, diversifying the policy and operating risks we face in the residential property market and supporting our long-term growth. Furthermore, we plan to continue to regularly conduct property owner satisfaction surveys in respect of quality of properties delivered, property management services and community maintenance. We will continue to improve the quality of our products and services based on customer

feedback in order to further enhance our brand name. In addition, we plan to leverage our strong brand name and good relationships with large institutional customers to increase bulk sales of residential properties and en-bloc sales of entire office buildings. We believe such bulk sales will enable us to accelerate payment collection and reduce marketing expenses and capital costs.

Develop Grade A office buildings in central business districts of first-tier cities and second-tier cities that are provincial capitals in the PRC

Leveraging our substantial experience in the real estate industry in the PRC and our expertise in developing large-scale mixed-use complex projects, we plan to develop Grade A office buildings in central business districts of first-tier cities and second-tier cities that are provincial capitals in the PRC. We believe the market of such types of office buildings has high growth potential. We have completed two high-rise Grade A office buildings with a GFA held for investment of 159,999 sq.m. in our Beijing Glory City and a high-rise Grade A office building with a GFA held for investment of 119,882 sq.m. in our Beijing Hademen Center, both located within the Second Ring Road of Beijing. We have developed three high-rise Grade A office buildings and two ultra high-rise Grade A office buildings with a GFA available for sale or use by us of 166,188 sq.m. in our Haikuotiankong Glory City located in the commercial center of Haikou. We plan to implement this strategy in the following three steps:

- We plan to construct an ultra high-rise Grade A office building with a total planned GFA of 289,978 sq.m. in Xi'an Glory International Financial Center;
- We plan to develop Grade A office buildings in Beijing, Shenzhen and Guangzhou and are currently conducting feasibility study for our proposed projects in these cities; and
- We plan to develop Grade A office buildings in selected second-tier cities that are also provincial capitals in the PRC.

We plan to sell a portion of such properties and hold the remainder as investment properties to generate stable and recurring rental income and retain capital appreciation. We believe our successful implementation of this strategy will enable us to become a market leader in developing Grade A office buildings in China. To implement this strategy, we have established specialized sales and marketing, design and management teams. In addition, we plan to fund the implementation of such strategy through a flexible combination of internal resources and debt and equity financings.

Continue to improve our operational efficiency

We believe improving our operational efficiency is key to increasing our profitability. We plan to improve our operational efficiency by continuing to refine our management structure and property development process. In particular, we plan to:

- engage additional third-party real estate sales agencies to increase the efficiency of our sales and marketing efforts, while continuing to maintain strict cost controls on construction costs;
- continue to monitor the real-time progress of each of our property development projects and increase the amount of performance-based bonuses to our employees; and
- continue to develop standardized product lines to shorten our project development cycle.

Attract, retain and motivate talented personnel through systematic training programs and competitive remuneration packages

We are committed to building a highly professional and specialized team with strong execution capabilities that shares and approves of our values, vision and corporate culture. We believe our future success and growth strategies depend on our ability to attract and retain talented professionals.

We plan to continue to strategically increase the percentage of specialized talents in our employee base, including those focusing on research and design of standardized products, refined cost management and quality control, and engineering management. To attract and retain talented professionals, we offer systematic and comprehensive training programs to our employees, providing various external and internal trainings for our employees at different seniority levels and specialized fields of work. We also plan to continue to implement our mentoring program by assigning a mentor for each of our new joiners for career guidance and support. In addition, we plan to refine our rotation system for our employees among different departments at our headquarters or different regional project companies to develop a qualified and versatile mid-level management team. We also plan to continue to offer competitive remuneration packages to attract and retain talented professionals, to better align our employees' interests and to foster a higher level of recognition and appreciation of our corporate value and culture.

Facilitate the sustainable development of the environment and the community

We aim to raise the development and management standard of our properties and to facilitate the sustainable development of the environment and the community through a series of measures such as green and environmental-friendly architectural planning, design, construction and operation. Our Beijing Hademen Center (北京哈德門中心) project, a landmark on the Second Ring in Beijing, has obtained the LEED Gold pre-certification granted by the U.S. Green Building Council, which not only exhibits the quality of a high-end commercial complex but also reflects our commitment to the sustainable development of the environment and the community.

RECENT DEVELOPMENTS

Concurrent Transactions

Concurrently with the offering of the Notes, we are conducting the Concurrent Exchange Offer pursuant to the Exchange Offer and Consent Solicitation Memorandum. Pursuant to the Concurrent Exchange Offer, we expect to issue the Exchange Notes, which will have the same terms as and form a single class with the respective Notes issued in this offering. The Exchange Notes are expected to be delivered on the same date as the Notes. This offering is conditional upon completion of the Concurrent Exchange Offer. Our obligation to consummate the Exchange Offer is subject to the satisfaction of certain conditions. The aggregate principal amount of the Exchange Notes and the Notes to be issued pursuant to the Exchange Offer and this offering is US\$.

We are also concurrently soliciting consents from Eligible Holders (as defined in the Exchange Offer and Consent Solicitation Memorandum) of the outstanding 2019 Notes to make certain amendments to the 2019 Notes Indenture, which is being made pursuant to the Exchange Offer and Consent Solicitation Memorandum.

Redemption of the 2019 Private Placement Notes

On January 9, 2021, we completed the full redemption of the 2019 Private Placement Notes at a redemption price equal to the principal amount of the 2019 Private Placement Notes plus accrued interest to the maturity date. As a result of the redemption, there are no outstanding 2019 Private Placement Notes.

Termination of Capital Contribution Arrangement

On August 31, 2017, Garden Group, a limited liability company established in the PRC and an indirect wholly-owned subsidiary of us, signed seven agreements to subscribe for/acquire 10% equity interest in each of the seven companies (namely Guangdong Hongtai Guotong, Guangdong Guosha, Tianjin Tianfu Rongsheng, Sanya Jingheng, Handan Guoxia, Chongqing Guosha and Jiangmen Yinghuiwan). The seven companies and Shijiazhuang Guosha are collectively referred to as the Target Companies. On April 27, 2018, we signed seven additional capital contribution agreements with these Target Companies and their existing shareholders, respectively, to (i) acquire 10% equity interest held by Garden Group in the seven Target Companies (other than Shijiazhuang Guosha); (ii) make further capital

contributions in the seven Target Companies (other than Shijiazhuang Guosha); and (iii) cooperate in their real estate projects. On November 23, 2018, Guoxing Wanxuna, a limited liability company established in the PRC and an indirect wholly-owned subsidiary of us, signed a capital contribution agreement to subscribe for 51% equity interest in Shijiazhuang Guosha.

On November 23, 2020, we entered into eight termination agreements with the Target Companies and their respective existing shareholders to terminate the capital contribution arrangements. Upon completion of the termination agreements, as we will cease to hold any equity interest in the Target Companies, the financial results of each of the Target Companies will cease to be consolidated into those of us. The termination of the capital contribution arrangement will take effect upon obtaining the approval from our independent shareholders pursuant to the Listing Rules. The net assets of the Target Companies held by us is approximately RMB2,346.85 million as of June 30, 2020 and we estimate that the completion of the termination agreements will record a loss of approximately RMB553.89 million due to the applicable accounting treatment. Due to the project delivery and settlement schedules of the property projects developed by these Target Companies and their historical land bank and contracted sales contributions to our property portfolio, we believe that these Target Companies have contributed a significant portion to our total revenue and profit and therefore, the termination of these capital contribution arrangements may adversely affect our business operations and financial performance in the recent periods. However, from the perspective of long-term development strategy, we believe such terminations are in the interest of our Company and our Shareholders as a whole in terms of our cash flow and financing cost management and sales performance in light of current market situation and economic environment. See “Risk Factors — Risks Relating to Our Business — We may not be able to execute our contemplated expansion plan successfully.”

On December 14, 2020, we had an extraordinary general meeting and a voting on the proposed resolutions to approve the eight termination agreements with the Target Companies was taken by poll. The proposed resolutions to approve the eight termination agreements were passed as ordinary resolution by our shareholders.

Unless otherwise indicated, the description of our business operation as of June 30, 2020 in this offering memorandum, including our various development projects, have not reflected such termination.

Property Management and Commercial Management Service Transactions

On September 29, 2020, (i) we and Glory Services entered into the new property management services framework agreement to engage Glory Services to provide property management related services; (ii) the members of our Group and the members of the commercial management services group (excluding Xi’an Ruihe and Hainan Glory Commercial) respectively entered into six new commercial management services agreements to engage the commercial management services group (excluding Xi’an Ruihe and Hainan Glory Commercial) to provide commercial management related services. The above new agreements are effective retrospectively from September 20, 2020 to September 19, 2023.

On September 29, 2020, in order to better manage commercial property projects of our Group, members of our Group entered into two new commercial management services agreements respectively with Xi’an Ruihe and Hainan Glory Commercial (as two new members of the commercial management services group), pursuant to which our Group engages Xi’an Ruihe and Hainan Glory Commercial to provide commercial management related services. The above new agreements are effective retrospectively from September 20, 2020 to September 19, 2023.

Provision of Guarantee to a Subsidiary of the Company

On October 8, 2020, Glory Xingye Investment, a wholly-owned subsidiary of us, entered into a Facility Agreement with Bank of Tianjin Co., Ltd. Beijing Branch as the Lender. Pursuant to the Facility Agreement, Glory Xingye Investment agrees to borrow and the Lender agrees to provide a Loan Facility of RMB1.5 billion. In consideration of the provision of the Loan Facility under the Facility Agreement by the Lender, we, Garden Group, a wholly-owned subsidiary of us, and Beijing Ruixin Enterprise Management Co., Ltd. (北京睿欣企業管理有限公司), a wholly-owned subsidiary of the Company, agreed to provide Corporate Guarantees, and Mr. Zhang Zhangsun and Ms. Ruan Wenjuan agreed to provide a joint and several guarantee, each in favor of the Lender, so as to guarantee the performance of Glory

Xingye Investment's obligations of up to RMB1.5 billion. The underlying regarding the Corporate Guarantees and individual guarantees agreements have been signed by the parties on October 8, 2020. The entering into of the agreements in relation to the Loan Facility and the provision of Corporate Guarantees are for the purpose of financing our projects.

Leasing of Investment Properties

We selectively retained the ownership of a substantial amount of self-developed commercial properties with strategic value to generate stable and sustainable income. As of June 30, 2020, we had investment properties with a total GFA of 983,960 sq.m. in Beijing Fugui Garden, Beijing Glory City, Beijing Bei Wu Lou, Shenyang Glory City, Shantou Glory City, Eudemonia Palace, Beijing Hademen Center, Shenzhen Nanshan, Haikou Glory City and Foshan Glory Shengping Commercial Center.

OUR BUSINESS

Overview of Our Property Projects

We develop and sell a variety of residential properties and commercial properties. Our residential properties include high-rise and mid-rise apartments, multi-layer garden houses, townhouses, stand-alone houses and siheyuan (四合院). Our commercial properties primarily include retail outlets, shopping malls, offices, hotels, specialized markets and SOHO apartments. Our property development projects comprise residential projects and large-scale mixed-use complex projects that typically consist of a combination of residential properties with various commercial properties. We selectively retain the ownership of a substantial amount of self-developed commercial properties with strategic value to generate stable and recurring rental income and retain capital appreciation. As of June 30, 2020, our property portfolio consisted of 29 projects completed located in Beijing, Haikou, Wanning, Shantou, Foshan, Shenyang, Zhengzhou, Langfang and Chongqing. As of June 30, 2020, we had a total GFA of 7.0 million sq.m. under development and a total GFA of 6.9 million sq.m. held for future development.

The table below sets forth the geographic breakdown of our contracted sales during the three years ended December 31, 2019 and the six months ended June 30, 2019 and 2020:

| | For the Year Ended December 31 | | | | | | For the six months ended June 30, | | | |
|---|---------------------------------|-----------------------------|---------------------------------|-----------------------------|---------------------------------|-----------------------------|-----------------------------------|-----------------------------|---------------------------------|-----------------------------|
| | 2017 | | 2018 | | 2019 | | 2019 | | 2020 | |
| | Contracted Sales ⁽¹⁾ | % of Total Contracted Sales | Contracted Sales ⁽¹⁾ | % of Total Contracted Sales | Contracted Sales ⁽¹⁾ | % of Total Contracted Sales | Contracted Sales ⁽¹⁾ | % of Total Contracted Sales | Contracted Sales ⁽¹⁾ | % of Total Contracted Sales |
| | (RMB million) | (%) | (RMB million) | (%) | (RMB million) | (%) | (RMB million) | (%) | (RMB million) | (%) |
| Beijing | 4,829.2 | 32.6 | 8,434.0 | 38.5 | 11,040.0 | 46.2 | 6,687.2 | 52.1 | 4,057.8 | 54.3 |
| Haikou | 1,432.0 | 9.6 | 769.2 | 3.5 | 381.9 | 1.6 | 262.8 | 2.1 | 102.8 | 1.4 |
| Wanning | 92.7 | 0.6 | 28.5 | 0.1 | 54.4 | 0.2 | 1.2 | 0.0 | 120.5 | 1.6 |
| Shantou | 1,161.1 | 7.8 | 1,531.3 | 7.0 | 544.9 | 7.0 | 214.8 | 1.7 | 253.0 | 3.4 |
| Suzhou | 655.4 | 4.4 | 1,422.9 | 6.5 | 2,040.9 | 8.5 | 1,413.2 | 11.0 | 556.5 | 7.4 |
| Shenyang | 750.1 | 5.0 | 652.3 | 3.0 | 853.4 | 3.6 | 422.9 | 2.6 | 194.4 | 2.6 |
| Zhengzhou | 244.4 | 1.6 | 119.1 | 0.5 | 95.6 | 0.4 | 17.2 | 0.1 | 45.1 | 0.6 |
| Langfang | 1,421.6 | 9.6 | 823.5 | 3.8 | 357.1 | 1.5 | 340.8 | 2.7 | 91.2 | 1.2 |
| Foshan | 861.6 | 5.8 | 1,627.7 | 7.4 | 2,307.5 | 9.7 | 708.0 | 5.5 | 865.5 | 11.6 |
| Chongming | 463.8 | 3.1 | 2,013.8 | 9.2 | 748.0 | 3.1 | 731.0 | 5.7 | 69.4 | 0.9 |
| Tianjin | — | — | 780.1 | 3.6 | 564.4 | 2.4 | 395.1 | 3.1 | 128.7 | 1.7 |
| Chongqing | — | — | 477.0 | 2.2 | 742.2 | 3.1 | 354.3 | 2.8 | 170.7 | 2.3 |
| Jiangmen | — | — | — | — | 513.4 | 2.2 | 277.5 | 2.2 | 258.2 | 3.5 |
| Xi'an | — | — | — | — | 308.9 | 1.3 | 142.7 | 1.1 | 232.6 | 3.1 |
| Sanya | — | — | — | — | 390.4 | 1.6 | 288.9 | 2.3 | 149.1 | 2.0 |
| Handan | — | — | — | — | 1,391.4 | 5.8 | — | — | 40.7 | 0.5 |
| Shijiazhuang | — | — | — | — | 456.1 | 1.9 | 75.2 | 0.6 | 40.8 | 0.6 |
| Wuxi | — | — | 300.0 | 1.4 | 670.2 | 2.8 | 257.2 | 2.0 | 45.2 | 0.6 |
| Cooperation projects ⁽²⁾ | 2,964.8 | 19.9 | 2,649.4 | 12.1 | — | — | — | — | — | — |
| Total⁽³⁾ | 14,876.7 | 100.0 | 21,912.8 | 100.0 | 23,915.4 | 100.0 | 12,828.3 | 100.0 | 7,478.0 | 100.0 |

Note:

- (1) Contracted sales shown in the table include sales of car parking spaces.
- (2) Contracted sales of cooperation projects refer to the total amount of contracted sales of such cooperation projects.
- (3) This table includes contracted sales of the Target Companies which we have entered termination agreements on November 23, 2020 to terminate the capital contribution arrangements. We will cease to hold any equity interest in the Target Companies upon completion of the termination agreements.

Our contracted ASP increased from RMB16,260.7 per sq.m. in 2017 to RMB16,804 per sq.m. in 2018, RMB18,713 per sq.m. in 2019 and RMB19,904.0 per sq.m. in the first half of 2020, primarily reflecting the changes of proportion of our projects in first-tier cities.

Our actual cash receipts from property sales, which represented the aggregate cash amount received from binding pre-sale and sale contracts during such periods, were RMB6,713.4 million, RMB9,005.0 million, RMB12,596.0 million, RMB6,558.0 million and RMB4,150.0 million for the years ended December 31, 2017, 2018, 2019 and for the six months ended June 30, 2019 and 2020, respectively. Such amounts do not necessarily correspond to the amounts of our contracted sales for the corresponding periods.

In April 2016, we successfully won the bid for a prime land parcel in Wuzhong District, Suzhou and started establishing a presence in the “Yangtze River Delta” region. Currently, we have formed strategic layouts in the “Beijing, Tianjin and Hebei” region, the “Pearl River Delta” region and the “Yangtze River Delta” region, which are centered around Beijing, Shenzhen and Suzhou respectively. As of June 30, 2020, the total land reserves of the Group was approximately 15.0 million sq.m., of which those in first-tier and second-tier cities and popular cities accounted for approximately 61%.

We have also established a culture and tourism innovation business division to enhance our research and development and operational capabilities in the innovative property business sector and to support the layout and implementation of our “Real Estate +” (房地產+) business in China. In April 2016, we reached an intention for strategic cooperation with the Zhengzhou Municipal Government in respect of a cultural industry park. In May 2016, we signed an agreement with the Yongqing County Government of Hebei Province in respect of an internet finance town (永清金融小鎮) project with a view to constructing a gathering place for internet finance enterprises. In 2018, we launched Guorui Smart Eco-city project (國瑞智慧生態城項目) located in Tongren, Guizhou, with a view to building a modern, intelligentized and eco-friendly community.

We insisted on deep development in regions, mainly Beijing-Tianjin-Hebei, Yangtze River Economic Zone and the Guangdong-Hong Kong-Macao Greater Bay Area, thus maintaining stable sales. Beijing Glory Villa, Fengtai Xiaowayao (豐台小瓦窯), Daxing Ruifuyuan (大興瑞福園), Haidian Cuihu (海澱翠湖) Project, Chongming Island Guorui Yingtai (崇明島國瑞瀛台), Suzhou Glory Villa (蘇州國瑞熙墅), Foshan Guohua New Capital (佛山國華新都), Jiangmen Shanhuhai (江門山湖海), Yongqing Eco-town (永清生態城), Guizhou Tongren Intelligent Eco-town (貴州銅仁智慧生態城), Hainan Wanning Glory City (海南萬寧國瑞城), Shenyang Glory Xiyue (瀋陽國瑞·熙悅) and other projects saw satisfactory sales. On December 31, 2019, we was accredited as 2019 China’s Top 100 Real Estate Enterprises in Sales published by CRIC.

In the first half of 2020, under the macro environment of regulation policies which were not eased and strict capital supervision, we are committed to promoting the high-quality corporate development by balancing the three driving forces, namely sales, investment and financing. In February of 2020, we explored the online marketing model, with the launch of “Fangyun (房雲)” which initiated its Linked Huichun Plan for 16 Projects (十六盤聯動惠春計劃), thus overcoming the difficulties of real estate enterprises during the pandemic.

We develop both residential and commercial properties. We classify a property development project as:

- a mixed-use complex project if the project comprises office building(s), shopping mall(s) and/or specialized markets and other commercial properties, and in most cases, residential properties; or
- a residential project if the project comprises residential properties and does not include any office building, shopping mall or specialized market, but in some cases, includes other commercial properties such as retail outlets, SOHO apartments or hotels.

Residential Properties

We focus on developing residential units with comfortable living environment and easy access to public transportation. We primarily develop the following types of residential properties:

- high-rise and mid-rise apartments (高層及中層住宅) — typically buildings higher than seven stories with the GFA per unit ranging from 60 sq.m. to 150 sq.m.;
- multi-layer garden houses (多層花園洋房) — typically low-rise buildings of four to six stories with the GFA per unit ranging from 90 sq.m. to 190 sq.m.;
- townhouses (聯排住宅) — typically connected houses of two to six units;
- stand-alone houses (獨棟住宅) — typically independent houses of one to four stories; and
- siheyuan (四合院) — a historical type of residence in China, also referred to as the Chinese quadrangles, namely, a courtyard surrounded by four buildings.

Some of our residential projects comprise street-level retail outlets and ancillary clubhouses, kindergartens and schools. We normally sell the street-level retail outlets but retain the ownership of the ancillary clubhouse, kindergarten and school premises within our residential projects and engage third-party operators to manage and operate them.

Mixed-use Complexes

We also develop mixed-use complex projects. We normally sell the residential and some or all of the office units of such mixed-use complexes, while retaining shopping malls, specialized markets and some of the office units, if applicable, as our investment properties.

Classification of Our Property Projects

According to the stage of development, we classify our property development projects into three categories. As some of our projects comprise multiple-phase development on a rolling basis, a single project may include different phases at various stages of development.

As of June 30, 2020, we had land reserves with a total GFA of 15.0 million sq.m., comprising (a) a total GFA of 1.1 million sq.m. completed but remaining unsold, (b) a total GFA of 7.0 million sq.m. under development, and (c) a total planned GFA of 6.9 million sq.m. held for future development.

Our classification of properties reflects the basis on which we operate our business and may differ from classifications employed by other developers. Each property development project may involve multiple land use rights certificates, construction land planning permits, construction work planning permits, construction work commencement permits, pre-sale permits and other permits and certificates which may be issued at different times throughout the development process. Our classification of our

properties is also different from the classification of properties in the Accountants' Report included elsewhere in this offering memorandum. The differences between our classification of properties and the classification of properties in our financial statements are set forth in the table below:

| Our Classification | Financial Statements |
|--|---|
| <ul style="list-style-type: none"> • Completed properties <p>We have received the completion certificate from the relevant government construction authorities.</p> | <p>Properties held for sale</p> <p>Investment properties</p> <p>Prepaid lease payments</p> <p>Property, plant and equipment</p> |
| <ul style="list-style-type: none"> • Properties under development <p>We have received the required construction work commencement permit but not the relevant completion certificate.</p> | <p>Properties under development</p> |
| <ul style="list-style-type: none"> • Properties held for future development <p>We (a) have received the relevant land use rights certificate, or (b) have signed the relevant land grant contract with relevant government authority but have not yet obtained land use rights certificate, or (c) have received the confirmation letter on bidding for granting land use rights of the underlying land parcel(s) but have not yet signed the relevant land grant contract, and, in each case, construction work has not yet commenced.</p> | <p>Deposits paid for land acquisition</p> <p>Properties under development</p> |

In respect of properties for which we have received the confirmation letters on bidding for granting land use rights from the relevant government authorities after we have successfully won the bids, according to the "Rules on Bidding, Auctioning and Listing of State-owned Land Use Rights" (《招標拍賣掛牌出讓國有建設用地使用權規定》), which came into effect on November 1, 2007, the confirmation letters on bidding for granting land use rights are legally binding on both the successful bidders and the auctioneers. The winning bidder must sign the land grant contract with the auctioneer as prescribed in the confirmation letter on bidding for granting land use rights. Accordingly, we classify properties for which we have received confirmation letters on bidding for granting land use rights as properties held for future development. For the avoidance of doubt, we are not required to pay any fees to land authorities during the period from the time of receipt of the confirmation letter on bidding for granting land use rights to the time of signing the relevant land grant contract.

Summary Information Regarding Our Projects

We have obtained all relevant land use rights certificates for our completed properties remaining unsold and our properties under development. As of June 30, 2020, we had not obtained land use rights certificates for our properties held for future development with a total GFA of 2,496,128 sq.m., including properties held for future development with a total GFA of 6,904,845 sq.m., for which we had received the confirmation letter on delivering the relevant land parcel and have carried out the preliminary work on the relevant land parcel.

The tables below set forth a summary of our property projects. It should be noted that project names used in this offering memorandum are names we have used, or intend to use, for marketing purpose of our properties. Some of the project names require approval of the relevant authorities, and the relevant authorities may not accept the names we have used or those that we intend to use as the registered names of these projects. As a result, the actual names registered with the relevant authorities may be different from the names used in this offering memorandum and may be subject to change.

Completed Projects and Project Phases

The table below sets forth a summary of information on our completed projects and project phases as of June 30, 2020:

| Project | Project Type | Site Area (sq.m.) | Completed GFA (sq.m.) | GFA Available for Sale or Use By Us (sq.m.) | GFA Available for Sale (sq.m.) | GFA Held for Investment (sq.m.) | GFA Sold (sq.m.) | Other GFA (sq.m.) | Ownership Interest |
|---|--------------|----------------------|-----------------------------|---|---|--|---------------------|----------------------|-----------------------|
| | | | | | | | | | (%) |
| Beijing | | | | | | | | | |
| 1 Beijing Fugui Garden | Mixed-use | 87,075 | 507,857 | 47,636 | 4,537 | 29,316 | 421,779 | 9,125 | 91 |
| 2 Beijing Glory City | Mixed-use | 117,473 | 881,590 | 62,593 | 15,560 | 159,999 | 640,900 | 18,099 | 80 |
| 3 Eudemonia Palace | Residential | 14,464 | 33,102 | 3,431 | — | 3,431 | 24,931 | 1,309 | 80 |
| 4 Beijing Hademen Center | Commercial | 12,738 | 140,057 | 14,817 | — | 119,882 | — | 5,358 | 80 |
| 5 Glory Villa West | Residential | 46,959 | 148,491 | 54,706 | 45,796 | — | 75,370 | 18,415 | 80 |
| 6 Glory Villa East | Residential | 48,486 | 144,526 | 43,870 | 27,342 | — | 83,045 | 17,611 | 100 |
| Haikou | | | | | | | | | |
| 1 Haikuotiankong Glory City | Mixed-use | 141,375 | 811,123 | 166,188 | 378 | 30,007 | 577,270 | 37,658 | 80 |
| 2 Haidian Island Glory Garden | Residential | 65,643 | 71,863 | 14,930 | 659 | — | 56,352 | 581 | 80 |
| 3 Glory Riverview Garden | Residential | 36,634 | 21,658 | 506 | 506 | — | 20,068 | 1,085 | 80 |
| 4 Haikou West Coast Glory | Residential | 34,121 | 21,971 | 1,824 | 1,824 | — | 18,867 | 1,281 | 80 |
| Wanning | | | | | | | | | |
| 1 Wanning Glory City (Phase I) | Residential | 100,780 | 161,988 | 9,119 | 1,767 | — | 149,295 | 3,574 | 80 |
| Langfang | | | | | | | | | |
| 1 Yongqing Glory City (Phase I (partial), Phases III, V) | Residential | 509,049 | 426,535 | 44,968 | 17,106 | — | 379,310 | 2,256 | 80 |
| 2 Yongqing Glory City (Phase IV (partial)) | Residential | 250,031 | 667,852 | 144,220 | 83,884 | — | 523,632 | — | 100 |
| Zhengzhou | | | | | | | | | |
| 1. Zhengzhou Glory City | Mixed-use | 472,992 | 803,762 | 80,757 | 4,186 | — | 678,162 | 44,844 | 80 |
| Shenyang | | | | | | | | | |
| 1 Shenyang Glory City (Phases I to II, Phase III (partial), Phase IV and Phase V (partial)) | Mixed-use | 357,189 | 920,895 | 77,724 | 12,436 | 109,813 | 718,544 | 14,814 | 80 |
| Foshan | | | | | | | | | |
| 1 Foshan Guohua New Capital (Phase I and Phase II (partial)) | Residential | 104,576 | 485,514 | 105,484 | 101,509 | — | 316,719 | 63,312 | 44 |
| 2 Foshan Glory Shengping Commercial Center | Mixed-use | 10,920 | 41,847 | 376 | 376 | 34,989 | 1,505 | 4,977 | 80 |
| 3 Canglonghuafu (藏珑华府)* | Residential | 62,856 | 335,660 | 79,641 | 31,451 | — | 201,625 | 54,394 | 35 |
| Shantou | | | | | | | | | |
| 1 Shantou Glory City (Phase I) | Mixed-use | 50,999 | 62,398 | — | — | 62,398 | — | — | 90 |
| 2 Glory Garden (Phase I) | Mixed-use | 14,161 | 33,795 | 1,988 | 1,988 | — | 31,649 | 158 | 100 |
| 3 Yu Garden | Residential | 8,292 | 25,767 | — | — | — | 25,767 | — | 100 |
| 4 Star Lake Residence | Residential | 3,589 | 12,132 | — | — | — | 12,132 | — | 100 |
| 5 Yashi Garden | Residential | 9,472 | 48,054 | 56 | 56 | — | 47,223 | 775 | 100 |
| 6 Guan Haiju | Residential | 25,922 | 171,450 | 46,133 | 11,818 | — | 124,361 | 956 | 100 |
| 7 Siji Garden | Residential | 42,155 | 203,549 | 13,639 | 13,639 | — | 147,931 | 41,979 | 80 |
| 8 Glory Garden (Phase II) | Residential | 14,482 | 78,619 | 563 | 563 | — | 66,690 | 11,366 | 80 |
| Suzhou | | | | | | | | | |
| 1 Glory Villa | Mixed-use | 22,991 | 72,823 | 13,049 | 13,049 | — | 59,587 | 187 | 80 |
| Jiangmen | | | | | | | | | |
| 1 Shanhuhaizhuangyuan (山湖海莊園)* | Mixed-use | 43,652 | 32,059 | 9,997 | 32,049 | — | 22,062 | — | 52 |
| Chongqing | | | | | | | | | |
| 1 Elegant Villa (書香溪墅)* | Residential | 157,083 | 340,786 | 84,599 | 84,332 | — | 256,187 | — | 51 |
| Tianjin | | | | | | | | | |
| 1 Ruichengjiayuan (瑞城嘉園) | Residential | 57,431 | 120,063 | 55,529 | 55,529 | — | 55,805 | 8,729 | 35 |
| Total | | 2,923,590 | 7,827,786 | 1,178,343 | 562,340 | 549,835 | 5,736,768 | 362,843 | |
| Total Attributable GFA | | 2,275,988 | 6,057,383 | 869,034 | 366,274 | 449,333 | 4,495,038 | 243,980 | |

Note:

* We will cease to hold any equity interest in these projects due to the termination agreements we entered on November 23, 2020 with the Target Companies and their respective existing shareholders to terminate the capital contribution arrangements upon completion of the termination agreements.

Properties Under Development and Properties Held for Future Development

The table below sets forth a summary of information on our projects or project phases under development or held for future development as of June 30, 2020:

| Project | Project Type | UNDER DEVELOPMENT | | | | HELD FOR FUTURE DEVELOPMENT | | | Ownership Interest (%) |
|--|--------------|-------------------|-----------------------|-----------------------|--------------|-----------------------------|--|------|------------------------|
| | | Site Area | GFA Under Development | Saleable/Rentable GFA | GFA Pre-sold | Planned GFA | GFA of Land Use Rights Certificates Not Yet Obtained | | |
| | | (sq.m.) | (sq.m.) | (sq.m.) | (sq.m.) | (sq.m.) | (sq.m.) | | |
| Beijing | | | | | | | | | |
| 1 Beijing Glory Villa East | Residential | 45,713 | 167,497 | 124,177 | — | — | — | 100 | |
| 2 Beijing Glory Villa West | Residential | 26,335 | 91,316 | 77,676 | — | — | — | 80 | |
| 3 Daxing Yinghai Project | Residential | 63,030 | 203,071 | 193,912 | 108,141 | — | — | 80 | |
| 4 Fengtai Xitieying | Residential | 65,650 | 335,456 | 285,069 | 114,923 | — | — | 16 | |
| 5 Haidian Cuihu (海澱翠湖) | Residential | 82,336 | 271,381 | 264,854 | 113,986 | — | — | 28 | |
| 6 Fengtai Xiaowayao (豐台小瓦窯) | Residential | 27,200 | 149,196 | 129,237 | 93,712 | — | — | 40.8 | |
| Haikou | | | | | | | | | |
| 1 Hainan Yunlong | Mixed-use | 1,084,162 | 140,640 | 130,342 | 4,048 | 646,972 | — | 80 | |
| Wanning | | | | | | | | | |
| 1 Wanning Glory City (Phases II to III) | Residential | 143,560 | — | — | — | 191,955 | — | 80 | |
| Langfang | | | | | | | | | |
| 1 Yongqing Glory City (Phases I (partial) to II) | Residential | 410,569 | 87,194 | — | — | 782,877 | — | 80 | |
| 2 Yongqing Glory City (Phase IV (partial)) | Residential | 143,717 | — | — | — | 423,031 | — | 100 | |
| Zhengzhou | | | | | | | | | |
| 1 Zhengzhou Glory City (Phase VIII, School) | Mixed-use | 11,235 | 30,535 | 30,535 | — | — | — | 80 | |
| Shenyang | | | | | | | | | |
| 1 Shenyang Glory City (Phase III (partial), Phases V to VII) | Mixed-use | 181,414 | 420,109 | 380,447 | 134,277 | 73,342 | — | 80 | |
| Foshan | | | | | | | | | |
| 1 Foshan Guohua New Capital (Phase II) | Residential | 16,237 | 30,531 | 23,454 | — | — | — | 44 | |
| 2 Foshan Glory Shengping Commercial Center | Mixed-use | 79,311 | 310,420 | 220,237 | 11,791 | — | — | 80 | |
| 3 Foshan Xiqiao | Residential | 63,952 | 265,241 | 255,965 | 24,034 | — | — | 80 | |
| 4 Canglonghuafu (藏龍華府)* | Mixed-use | 139,755 | 411,419 | 281,162 | — | — | — | 35 | |
| Xi'an | | | | | | | | | |
| 1 Guorui Xi'an Financial Center | Mixed-use | 19,162 | 289,978 | 211,371 | 31,998 | — | — | 80 | |
| Shantou | | | | | | | | | |
| 1 Convention Hotel | Mixed-use | 28,439 | 186,799 | 136,357 | 46,708 | — | — | 100 | |
| 2 Shantou Glory Hospital | Hospital | 100,001 | 313,597 | — | — | 38,749 | — | 100 | |
| Shenzhen | | | | | | | | | |
| 1 Shenzhen • Nanshan | Commercial | 20,163 | 42,763 | 42,763 | — | 274,213 | — | 80 | |
| Suzhou | | | | | | | | | |
| 1 Suzhou Glory Villa | Mixed-use | 51,205 | 168,745 | 160,909 | 58,740 | — | — | 80 | |
| Qidong | | | | | | | | | |
| 1 Chongming Island | Residential | 1,211,544 | 321,438 | 292,722 | 280,428 | 761,358 | — | 72 | |
| 2 Butterfly Hotel | Hotel | 64,000 | 53,656 | — | — | — | — | 100 | |
| Wuxi | | | | | | | | | |
| 1 Glory Luoshe Xincheng (國瑞洛社新城) | Residential | 30,726 | 90,438 | 90,381 | 63,527 | — | — | 39 | |
| Tongren | | | | | | | | | |
| 1 Guorui Intelligent Eco-town Project (國瑞智慧生態城項目) | Mixed-use | 780,430 | 270,157 | 176,204 | 101,043 | 1,604,098 | 1,436,370 | 80 | |
| Tianjin | | | | | | | | | |
| 1 Ruichengjiayuan (瑞城嘉園) | Residential | 80,385 | 162,697 | 139,413 | — | — | — | 35 | |
| Chongqing | | | | | | | | | |
| 1 Elegant Villa (書香溪墅)* | Residential | 48,866 | 89,359 | 88,493 | — | — | — | 51 | |
| Jiangmen | | | | | | | | | |
| 1 Shanhuhaizhuangyuan (山湖海莊園)* | Mixed-use | 373,571 | 150,868 | 136,595 | 47,083 | 543,988 | — | 52 | |
| Handan | | | | | | | | | |
| 1 Handan Glory City (邯鄲國瑞城)* | Mixed-use | 161,736 | 844,696 | 713,325 | 188,797 | — | — | 35 | |
| Enping | | | | | | | | | |
| 1 Sijiquancheng (四季泉城)* | Residential | 106,091 | 92,854 | 92,854 | 34,888 | 250,801 | — | 68 | |
| 2 Wenquancheng (溫泉城) | Residential | 49,313 | — | — | — | 98,520 | — | 68 | |
| 3 Wenquan Garden (溫泉花園) | Residential | 69,626 | — | — | — | 139,252 | — | 68 | |

| Project | Project Type | UNDER DEVELOPMENT | | | | HELD FOR FUTURE DEVELOPMENT | | Ownership Interest (%) |
|-------------------------------|--------------|-------------------|-----------------------|-----------------------|------------------|-----------------------------|--|------------------------|
| | | Site Area | GFA Under Development | Saleable/Rentable GFA | GFA Pre-sold | Planned GFA | GFA of Land Use Rights Certificates Not Yet Obtained | |
| | | (sq.m.) | (sq.m.) | (sq.m.) | (sq.m.) | (sq.m.) | (sq.m.) | |
| Sanya | | | | | | | | |
| 1 Hongtangwan (紅塘灣)* | Mixed-use | 96,737 | 183,318 | 107,435 | 15,643 | — | — | 35 |
| Shijiazhuang | | | | | | | | |
| 1 Fuguicheng (富貴城)* | Mixed-use | 431,927 | 818,502 | 399,937 | 210,771 | 1,059,758 | 1,059,758 | 51 |
| Total | | 6,308,098 | 7,011,072 | 5,202,906 | 1,684,538 | 6,904,845 | 2,496,128 | |
| Total Attributable GFA | | 4,404,576 | 4,154,591 | 2,963,092 | 968,568 | 5,037,047 | 1,689,573 | |

Note:

* We will cease to hold any equity interest in these projects due to the termination agreements we entered on November 23, 2020 with the Target Companies and their respective existing shareholders to terminate the capital contribution arrangements upon completion of the termination agreements.

Land Reserves

The table below sets forth a summary of our land reserves by geographic location as of June 30, 2020:

| | Completed | Under Development | Future Development | Total Land Reserves | % of Total Land Reserves | Average Land Cost |
|---|------------------------------------|-----------------------|----------------------------|---------------------------------|--------------------------|-------------------|
| | Saleable/Rentable Remaining Unsold | GFA Under Development | Planned GFA ⁽¹⁾ | Total GFA | (%) | (RMB/sq.m.) |
| | (sq.m.) | (sq.m.) | (sq.m.) | (sq.m.) | (%) | (RMB/sq.m.) |
| Beijing | 405,863 | 1,217,917 | — | 1,623,779 | 10.8 | 16,605.4 |
| Haikou | 33,373 | 140,640 | 646,972 | 820,985 | 5.5 | 1,353.0 |
| Wanning | 1,767 | 17,201 | 207,886 | 226,854 | 1.5 | 332.1 |
| Langfang | 100,991 | 87,194 | 1,205,908 | 1,394,093 | 9.3 | 256.9 |
| Zhengzhou | 4,186 | 30,535 | — | 34,721 | 0.2 | 405.5 |
| Shenyang | 122,249 | 420,109 | 73,342 | 615,700 | 4.1 | 979.7 |
| Foshan | 168,325 | 1,017,610 | — | 1,185,935 | 7.9 | 3,503.3 |
| Xi'an | — | 289,978 | — | 289,978 | 1.9 | 1,551.8 |
| Shantou | 90,463 | 500,396 | 38,749 | 629,608 | 4.2 | 1,000.1 |
| Shenzhen | — | 42,763 | 274,213 | 316,976 | 2.1 | 2,673.7 |
| Suzhou | 13,049 | 168,745 | — | 181,794 | 1.2 | 17,100.6 |
| Chongming Island | — | 375,094 | 761,358 | 1,136,452 | 7.6 | 1,294.0 |
| Wuxi | — | 90,438 | — | 90,438 | 0.6 | 4,865.2 |
| Tongren | — | 270,157 | 1,604,098 | 1,874,255 | 12.5 | 501.2 |
| Chongqing | 84,332 | 89,359 | — | 173,691 | 1.2 | 386.5 |
| Tianjin | 55,529 | 162,697 | — | 218,226 | 1.5 | 2,182.1 |
| Sanya | — | 183,318 | — | 183,318 | 1.2 | 5,002.1 |
| Jiangmen | 32,049 | 150,868 | 543,988 | 726,905 | 4.8 | 524.6 |
| Enping | — | 92,854 | 488,573 | 581,426 | 3.9 | 147.1 |
| Handan | — | 844,696 | — | 844,696 | 5.6 | 401.3 |
| Shijiazhuang | — | 818,502 | 1,059,758 | 1,878,260 | 12.5 | 371.7 |
| Total | 1,112,176 | 7,011,072 | 6,904,845 | 15,028,093⁽¹⁾ | 100 | 2,890.0 |
| Total Attributable GFA | 815,607 | 4,154,591 | 5,037,047 | 10,007,245 | | |

Note:

- (1) Includes 2,496,128 sq.m. of planned GFA in respect of which the Group had received the confirmation letter on bidding for granting land use rights but had not yet signed the relevant land use right grant contract.
- (2) This table includes land reserve of the Target Companies which we have entered termination agreements on November 23, 2020 to terminate the capital contribution arrangements. We will cease to hold any equity interest in the Target Companies upon completion of the termination agreements.

The table below sets forth a summary of our land reserves as of June 30, 2020 by type of properties:

| | Completed | Under Development | Future Development | Total Land Reserves | % of Total Land Reserves |
|--|--|--------------------------|-----------------------|------------------------|-----------------------------|
| | Saleable/ Rentable GFA Remaining Unsold | GFA Under Development | Planned GFA | Total GFA | |
| | (sq.m.) | (sq.m.) | (sq.m.) | (sq.m.) | (%) |
| Residential | 352,069 | 4,250,365 | 5,690,630 | 10,293,062 | 68.5 |
| Commercial for sale | 121,434 | 879,932 | 707,598 | 1,708,964 | 11.4 |
| Commercial held or intended to be held for investment | 549,835 | 423,209 | — | 973,044 | 6.5 |
| Hotel | — | 161,888 | — | 161,888 | 1.1 |
| Car parking spaces | 88,838 | 706,236 | 174,759 | 969,833 | 6.5 |
| Ancillary | — | 275,159 | 293,109 | 568,268 | 3.8 |
| Hospital | — | 313,597 | 38,749 | 352,346 | 2.3 |
| Others | — | 686 | — | 686 | — |
| Total | 1,112,176 | 7,011,072 | 6,904,845 | 15,028,093 | 100 |

Note: This table includes land reserve of the Target Companies which we have entered termination agreements on November 23, 2020 to terminate the capital contribution arrangements. We will cease to hold any equity interest in the Target Companies upon completion of the termination agreements.

OUR PROPERTY DEVELOPMENT PROJECTS

Beijing

Beijing Glory City (北京國瑞城)

Beijing Glory City is a mixed-use complex project located at the center of Chongwai Avenue catchment (崇文商圏) and within the Second Ring Road, bordering Chongwenmenwai Avenue (崇文門外大街) to the west, Chongwenmendong Avenue (崇文門東大街) to the north and Huashi Avenue (花市大街) to the south. It is the second largest shopping center within the Second Ring Road, and it is one of the core shopping centers of Chongwai Avenue Catchment. It is approximately one kilometer from Tiananmen Square and is within walking distance from other popular places of historical interest including the Imperial Palace (故宮), Temple of Heaven (天壇) and Ming Dynasty City Wall Relics Park (明城牆遺址公園). Subway Line 2, Line 5 and Line 7 intersect in and more than 50 public bus routes converge on that area. Beijing Glory City is also close to a number of public facilities, including reputable kindergartens, primary and secondary schools and hospitals.

Beijing Glory City occupies a total site area of 117,473 sq.m., with a total GFA of 881,590 sq.m. The residential units of Beijing Glory City comprise high-rise apartments and siheyuan (四合院). We held 33,032 sq.m. of retail outlets, 7,219 sq.m. of siheyuan (四合院), 8,520 sq.m. of office units, 84,904 sq.m. of shopping mall and 26,324 sq.m. of car parking spaces as our investment properties. For the six months ended June 30, 2020, the total rental income of Beijing Glory City is RMB108.1 million.

Eudemonia Palace (京禧閣)

Eudemonia Palace is a residential project located on the south side of Tonghui River (通惠河), bordering the East Second Ring Road to the west, Liangguang Road (兩廣路) to the south and North Tonghui River Road (通惠河北路) and Chang'an Avenue (長安街) to the north. It is in close proximity to the CBD of Beijing and Scitech catchment (賽特商圏) and conveniently accessible to transportation facilities, including Subway Line 7.

Eudemonia Palace occupies a total site area of 14,464 sq.m. with a total GFA of 33,102 sq.m., comprising high-rise apartments and car parking spaces.

Beijing Hademen Center (北京哈德門中心)

Beijing Hademen Center is a mixed-use complex project located in the intersection of Chongwenmenwai Avenue and Chongwenmendong Avenue to the southeast, bordering our Beijing Glory City to the south. It is in the prime location of Chongwai Avenue catchment (崇文商圈) and conveniently accessible to transportation facilities including Subway Line 2 and Line 5. Beijing Hademen Center is approximately one kilometer from Tiananmen Square and less than one kilometer from the Beijing Train Station. It is also close to many public facilities and commercial amenities.

Beijing Hademen Center occupies a total site area of 12,738 sq.m. and have a total GFA of 140,057 sq.m., including 15,671 sq.m. of a shopping mall, 74,171 sq.m. of office units and 29,040 sq.m. of car parking spaces. Beijing Hademen Center is completed and we intend to hold as investment properties.

Beijing Glory Villa East (北京國瑞熙墅東)

Beijing Glory Villa East is a residential project located in Changping district, Beijing with convenient transportation. It is 4.8 km to the north sixth ring-road, 10 km to the north fifth ring-road, 2.1 km to the Beijing-Chengde Expressway (京承高速), and it is close to Aobei villa area (奧北別墅區) and north Airport Expressway (機場北線高速). It is also only 400 meters to the Future Technology City South Station of Beijing Subway Line No. 17. It is a large community which consists of policy-related housing, commercial residential buildings, commercial amenities, schools, nursing institutions for the aged, etc.

Beijing Glory Villa East occupies a total site area of 94,199 sq.m. and is expected to have a total GFA of 315,167 sq.m. upon completion, including 253,429 sq.m. of residential units and 36,572 sq.m. of office buildings. It is west of Haidebao Garden East Road (海德堡花園東路), east of Gouzitou West (溝自頭西), north of Baxian Villa South Road (八仙別墅南側路) and Lingshang North Road (嶺上北路), and south of Dingshi Road (定泗路).

Beijing Glory Villa West (北京國瑞熙墅西)

Beijing Glory Villa West is a residential project located in Changping district, Beijing with convenient transportation. It is 4.8 km to the north sixth ring-road, 10 km to the north fifth ring-road, 2.1 km to the Beijing-Chengde Expressway (京承高速), and it is close to Aobei villa area (奧北別墅區) and north Airport Expressway (機場北線高速). It is also only 400 meters to the Future Technology City South Station of Beijing Subway Line No. 17. It is a large community which consists of policy-related housing, commercial residential buildings, commercial amenities, schools, nursing institutions for the aged, etc.

Beijing Glory Villa West occupies a total site area of 73,294 sq.m. and is expected to have a total GFA of 239,805 sq.m. upon completion, including 221,389 sq.m. of residential units. It is west of Gouzitou East (溝自頭東), east of Beiqijiacunzhong Road (北七家村中路), north of Baxian Villa South Road (八仙別墅南側路) and Bolinzaixian Community (柏林在線小區), and south of Haochen Garden (浩辰花園).

Daxing Yinghai (大興瀛海)

Daxing Yinghai project is located in Yinghai Town, Daxing District, Beijing. It is east to Jingfu Road (京福路), south to Zhenquzhongjie Street (鎮區中街), west to Jinger Road (經二路) and north to Zhenqubeijie Street (鎮區北街). Daxing district is in the southern part of Beijing with huge development potential. In recent years, industries, traffic, ecological environment and living quality have been gradually improved. The planned second airport of Beijing will lead to the formation of a complete industrial chain around this area. Beijing-Taiwan Expressway (京台高速) goes through Yinghai area. It takes around 30 minutes by car to the urban areas of Beijing, and the south end of Subway Line 8 extends to Yinghai directly.

The total GFA of Daxing Yinghai project is 206,989 sq.m., including 97,691 sq.m. of residential units and 48,604 sq.m. of retail outlets.

Beijing Xitieying (北京西鐵營)

Beijing Xitieying project is located in Xitieying Village (西鐵營村) of Fengtai District within Beijing Third Ring Road, which is in proximity to Lize Financial Business District. The site area of the land parcel is approximately 65,650 sq.m., with a GFA under development of 335,456 sq.m. We hold 16% of the interests in the project.

The land parcel is used for residential and commercial development, and 54% of the area is for the purpose of self-occupied residential use.

Beijing Cuihu Science and Technology Zone (北京翠湖科技園)

Beijing Cuihu Science and Technology Zone, also known as Haibin Green Lake, is a residential project located in the core area of Cuihu Science and Technology Zone, Wenquan Town (溫泉鎮翠湖科技園), Haidian District. The site area of the land parcel is approximately 82,336 sq.m., with a planned GFA of 273,747 sq.m. We hold 28% of the interests in the project.

The land parcel is used for residential development, and 53% of the area is for the purpose of self-occupied residential use.

Fengtai Xiaowayao (豐台小瓦窑)

Fengtai Xiaowayao is a residential project located in Xiaowayao Village, Lugouqiao Town, Fengtai District, Beijing. The site area of the land parcel is approximately 27,200 sq.m. with a planned GFA of 149,196 sq.m. We hold 40.8% of the interests in the project. As of June 30, 2020, we have not started construction of the project.

Qidong

Chongming Island (崇明島)

Chongming Island is a residential project located in Chongming Island, Qilong village, Qidong, Jiangsu. The total site area is 1.21 million sq.m., and the planned GFA is 1.08 million sq.m. including 912,111 sq.m. of residential units and 41,003 sq.m. of retail outlets.

Butterfly Hotel (蝶湖酒店)

Butterfly Hotel project is 500 meters north to the intersection of Qidong town Jianghainanlu Road (江海南路) and Yanjiang Road (沿江公路). The total GFA is 53,656 sq.m. Butterfly Hotel is expected to be a five-star hotel with about 200 guest rooms, ancillary buildings, a catering center and a conference center.

Shenyang

Shenyang Glory City (瀋陽國瑞城)

Shenyang Glory City is a mixed-use complex project located in the intersection of Northeastern Main Road (東北大馬路) and Guanquan Road (觀泉路), Dadong District of Shenyang. Shenyang Glory City is within the second ring rim of Shenyang. It is conveniently accessible to transportation facilities and is in close proximity to many public bus routes. Shenyang Glory City is also close to a number of

public Facilities, including reputable primary and secondary schools and hospitals and is surrounded by commercial amenities such as supermarkets and ceramics plaza. Shenyang Glory City occupies a total site area of 538,603 sq.m., with a total GFA of 1,414,346 sq.m.

Haikou

Haidian Island Glory Garden (海甸島國瑞花園)

Haidian Island Glory Garden is a residential project located on the north side of Haijing Road (海景路), Haidian Island (海甸島) of Haikou. It is within 200 meters from the coastline, adjacent to Baishamen Ecological Park (白沙門生態公園), the largest theme park in Haikou. Haidian Island Glory Garden is conveniently accessible to transportation facilities and surrounded by many vacation facilities including golf courses and “five-star” hotels, public facilities including reputable kindergartens, primary and secondary schools and hospitals, and commercial amenities including supermarkets.

Haidian Island Glory Garden occupies a total site area of 65,643 sq.m. with a total GFA of 71,863 sq.m. and comprises high-rise apartments, multi-layer garden houses, retail outlets and car parking spaces.

Haikuotiankong Glory City (海闊天空國瑞城)

Haikuotiankong Glory City is a mixed-use complex project located in the intersection of the regional main road — Guoxing Road (國興大道) and Wuzhishan Road (五指山路) in Dayingshan area, the CBD area of Haikou. It is conveniently accessible to transportation facilities and surrounded by public facilities including reputable kindergartens and schools and commercial amenities including supermarkets, restaurants and cinemas. Haikuotiankong Glory City occupies a total site area of 141,375 sq.m. with a total GFA of 811,123 sq.m.

Glory Riverview Garden (國瑞江畔花園)

Glory Riverview Garden is a residential project located on the west side of Xinbu Island (新埠島), with Haidian Island across the river, bordering the scenic Henggou River (橫溝河) to the west and No. 2 Road of the Xinbu Island to the east. Glory Riverview Garden is surrounded by many vacation facilities including a “five-star” hotel and yacht club.

Glory Riverview Garden occupies a total site area of 36,634 sq.m. with a total GFA of 21,658 sq.m., including 20,573 sq.m. of residential units and 1,085 sq.m. of ancillary facilities. Glory Riverview Garden is held for future development. Its residential units will comprise townhouses.

Haikou West Coast Glory (海口西海岸國瑞)

Haikou West Coast Glory is a residential project located on the west coast of Haikou, bordering Binhai Avenue (濱海大道) to the north, West Yongwan Road (永萬西路) to the west and Changyi Road (長怡路) to the east. Haikou West Coast Glory is surrounded by the Holiday Beachside Resort (假日海灘旅遊區) and many vacation facilities including “five-star” hotels, golf courses, yacht and sailing clubs.

Haikou West Coast Glory occupies a total site area of 34,121 sq.m. with a total GFA of 21,971 sq.m., including 20,690 sq.m. of residential units and 1,281 sq.m. of ancillary facilities. Haikou West Coast Glory is held for future development. Its residential units will comprise townhouses.

Hainan Yunlong (海南雲龍)

Hainan Yunlong is a mixed-use complex project located in the area of Yunlong Reservoir (雲龍水庫). Hainan Yunlong is 12 kilometers from Meilan Airport (美蘭機場) and 20 kilometers from the downtown of Haikou.

Hainan Yunlong occupies a total site area of 1,084,162 sq.m. and is expected to have a GFA of 140,640 sq.m. under development, including 567,060 sq.m. of residential units and 220,552 sq.m. of ancillary facilities. Hainan Yunlong is held for future development.

Wanning

Wanning Glory City (萬寧國瑞城)

Wanning Glory City is a residential project located on the south side of Wanghai Road (望海大道). It is in close proximity to the largest municipal central park in Wanning City. Wanning Glory City is conveniently accessible to transportation facilities and is surrounded by public facilities including schools and hospitals. Wanning Glory City Phase I occupies a total site area of 100,780 sq.m., with a completed GFA of 161,988 sq.m.

Zhengzhou

Zhengzhou Glory City (鄭州國瑞城)

Zhengzhou Glory City is a mixed-use complex project located in Longhu Town of Xinzheng City (新鄭市龍湖鎮), connected to National Highway G107 to the west and Zhengxin High-speed Road (鄭新快速路) to the east. It is 11 kilometers from downtown of Zhengzhou City and 18 kilometers from Xinzheng International Airport. Zhengzhou Subway Line 2 under planning will run through Longhu Town in the future. Zhengzhou Glory City is surrounded by several colleges and institutes and more than a dozen of kindergartens and schools are being relocated to Longhu Town. Zhengzhou Glory City occupies a total site area of 472,992 sq.m., with a completed GFA of 803,762 sq.m.

Langfang

Yongqing Glory City (永清國瑞城)

Yongqing Glory City is a residential project located in Yongqing County (永清縣) of Langfang, a strategic area surrounding Beijing, being the hinterland of Bohai Economic Rim and the axis of Greater Beijing Strategic Economic Circle. Yongqing Glory City is close to Beijing-Taipei Highway (京台高速) to the west and Langba Road (廊霸路) to the east. It is 40 kilometers from Beijing to the north, 50 kilometers from Tianjin to the east and only 15 kilometers from the Beijing's second international airport under construction. Yongqing Glory City occupies a total site area of 1,313,366 sq.m., with a total GFA of 2,387,489 sq.m.

Shantou

Glory Garden (國瑞園) Phase II

Glory Garden Phase II project is a residential project located at No. 23 of Jinsha Road (金砂路) and No. 44 of Shanzhang Road (汕樟路). The total GFA is 78,619 sq.m. including 65,501 sq.m. of residential units and 9,714 sq.m. of parking spaces. The Glory Garden Phase II project is developed under the policy of urban renewal.

Yashi Garden (雅仕園)

Yashi Garden is a residential project located close to the intersection of North Tianshan Road (天山北路) and National Highway G324. It is surrounded by a number of public facilities including kindergartens, primary and secondary schools and hospitals and a variety of commercial amenities.

Yashi Garden occupies a total site area of 9,472 sq.m., with a total GFA of 48,054 sq.m. and comprises high-rise apartments, retail outlets and car parking spaces. Construction commenced in the fourth quarter of 2009 and was completed in the fourth quarter of 2011.

Shantou Glory City (汕頭國瑞城)

Shantou Glory City is a mixed-use complex project located in the intersection of East Zhongshan Road (中山東路) and Huangshan Road (黃山路), Longhu District of Shantou, bordering Shantou Harbor. Shantou Glory City (inclusive of Phase One and Phase Two) occupies a total site area of 105,360 sq.m., with a total GFA of 420,648 sq.m.

Phase I of Shantou Glory City is a furniture exhibition center. The total rental income for the six months ended June 30, 2020 is RMB12.4 million. Rental periods range from 4 to 13 years. Phase II of Shantou Glory City is a residential and hotel project, including a residential project phase, namely GuanHaiju, that has completed construction with a total GFA of 171,450 sq.m. and a hotel project phase which is under development with a planned GFA of 186,799 sq.m.

Shantou Glory Hospital (汕頭國瑞醫院)

Shantou Glory Hospital is a hospital project located in the Longhu District of Shantou. Shantou Glory Hospital is expected to be a general 3A hospital of advance international standard of medical services with 2,000 beds. The hospital is going to work on disease control, medical care, health care, rehabilitation, research and teaching, with focuses on VIP services such as neurosurgery, gastrointestinal, kidney transplantation, high-end obstetrics, network medicine.

Shantou Glory Hospital occupies a total site area of 100,001 sq.m. and is expected to have a site area of 313,597 sq.m. under development.

Siji Garden (四季園)

Siji Garden project is a residential project located in the southwest of the intersection of Taishan Road (泰山路) and Shanfen Road (汕汾路), Longhu District, Shantou City, with a completed GFA of 203,549 sq.m., including 147,507 sq.m. of residential units, 3,099 sq.m. of retail outlets and 33,243 sq.m. of parking spaces. The project is developed under the policy of urban renewal.

Foshan

Foshan Guohua New Capital (佛山國華新都)

Foshan Guohua New Capital is a residential project located on the east side of Nanhai District (南海區), the commercial center of Foshan, being adjacent to Guangzhou. It is surrounded by public facilities including hospitals and schools and a variety of commercial amenities.

Foshan Guohua New Capital occupies a total site area of 104,576 sq.m., with a completed GFA of 485,514 sq.m.

Foshan Glory Shengping Commercial Center (佛山國瑞升平商業中心)

Foshan Glory Shengping Commercial Center is a mixed-use complex project located in the CBD area of the old urban district of Foshan. It is in close proximity to its popular commercial center Oriental Plaza (東方廣場) and the commercial district Lingnan Xintiandi (嶺南新天地).

Foshan Glory Shengping Commercial Center occupies a total site area of 90,231 sq.m. and is expected to have a total GFA of 352,267 sq.m. upon completion, including 157,280 sq.m. of retail outlets, 19,862 sq.m. of SOHO departments, 97,096 sq.m. of shopping mall, and 82,791 sq.m. of car parking spaces. Foshan Glory Shengping Commercial Center is under development.

Foshan Xiqiao (佛山西樵)

Foshan Xiqiao is a residential project located on Bixia No.1 Road (碧霞一路), Chongshan Village, Xiqiao, Nanhai District, Foshan, and is about four kilometers to the local government. This project occupies a total site area of 63,952 sq.m. The planned GFA of the project is 265,241 sq.m., including 170,402 sq.m. of residential units, 8,000 sq.m. of retail outlets and 77,563 sq.m. of car parking spaces.

Shenzhen

Shenzhen • Nanshan (深圳 • 南山)

Shenzhen • Nanshan is a commercial project located in the Industrial Area of Nanshan District of Shenzhen, next to the Tencent Building (騰訊大廈). It is west of Kejizhong'er Road (科技中二路), east of Kejizhongyi Road (科技中一路), north of Hanyu Pharmacy Area (翰宇藥業園), close to Gaoxinzhong'er Road (高新中二道), and south of Gaoxinzhongyi Road (高新中一道).

Shenzhen • Nanshan occupies a total site area of 20,163 sq.m. and is expected to have a total GFA of 316,976 sq.m. of offices upon completion.

Shenzhen Xikeng (深圳西坑)

Shenzhen Xikeng is an urban renewal project located about six kilometers northwest to the port of Yantian, Shenzhen, with a planned GFA of 3,000,000 sq.m.

We have completed the census work in the Xikeng community, including the land ownership, resident population and building information, and the urban renewal planning research program.

Suzhou

Suzhou Glory Villa (蘇州國瑞熙墅)

Suzhou Glory Villa is a mixed-use project located in the core area of Mudu in the Wuzhong District, north of Muduzhenzhuyuan Road (木瀆鎮竹園路) and west of Jinfeng Road (金楓路). It is in close proximity to the prosperous commercial center of Shishan (獅山) of the new district, surrounded by a variety of public facilities and convenient public transportation system. It is only 150 meters to the Jinfeng Road Station of Subway Line No. 1. It is 3 km to core area of Shishan (獅山), 2 km to Mudu Town (木瀆古鎮), 10 km to Guanqian Road (觀前街) downtown, and 10 km to Taihu Wetland Park (太湖濕地公園). It is also near to variety of famous scenery of Suzhou, such as Taiping Mountain (天平山), Lingyan Mountain (靈巖山), and Suzhou Amusement Land (蘇州樂園).

Suzhou Glory Villa occupies a total site area of 74,196 sq.m. and is expected to have a total GFA 241,569 sq.m. upon completion, including 185,291 sq.m. of residential units and 52,675 sq.m. of car parking spaces. Suzhou Mudu is under development. Its residential units will comprise high-rise apartments.

Xi'an

Guorui • Xi'an Glory Financial Center (國瑞西安金融中心)

Guorui • Xi'an Glory Financial Center is a mixed-use project located in the CBD area of Xi'an Hi-tech Industries Development Zone (西安高新技術產業開發區). It is conveniently accessible to transportation facilities.

Guorui • Xi'an Glory Financial Center occupies a total site area of 19,162 sq.m. and is expected to have a total GFA of 289,978 sq.m. upon completion, including 203,811 sq.m. of offices, 7,560 sq.m. of retail outlets and 46,276 sq.m. of car parking spaces. Guorui • Xi'an Glory Financial Center is under development.

Wuxi

Glory Luoshe Xincheng (國瑞洛社新城)

Glory Luoshe Xincheng is a residential project located in Luoshe New City, Wuxi. The site area of the land parcel is approximately 30,726 sq.m. We hold 39% of the interests in the project. As of June 30, 2020 we have started construction of the project and the GFA under development is 90,438 sq.m.

Tongren

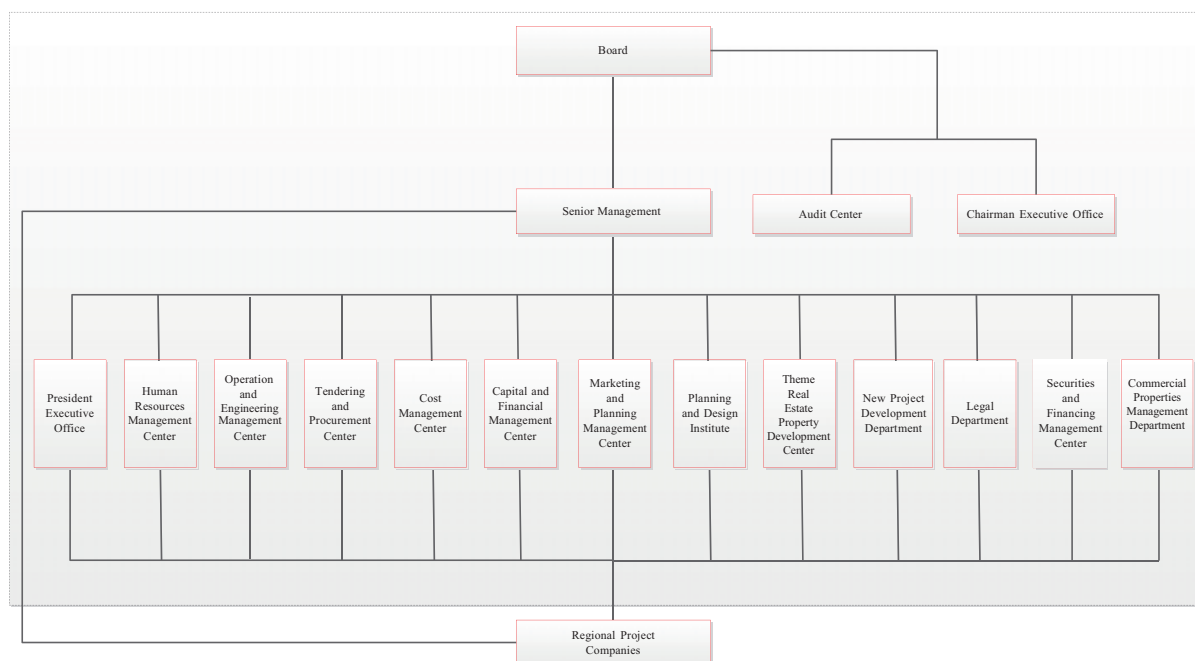
Guorui Intelligent Eco-town (國瑞智慧生態城項目)

Guorui Intelligent Eco-town is a mixed-use project located in Liangwan Wufu Avenue, Bijiang District, Tongren. The site area of the land parcel is approximately 780,430 sq.m. with a planned GFA of 1,874,255 sq.m. We hold 80% of the interests in the project.

PROJECT DEVELOPMENT MANAGEMENT

We have established 13 departments at our headquarters in Beijing, including the president executive office (總裁辦公室), operation and engineering management center (運營與工程管理中心), new project development department (新項目發展部), planning and design institute (規劃設計院), tendering and procurement center (招標採購中心), cost management center (成本管理中心), marketing and planning management center (行銷與策劃管理中心), theme real estate property development center (主題地產發展中心), capital and financial management center (資金與財務管理中心), securities and financing management department (證券與融資管理中心), commercial properties management department (商業物業經營事業部), human resources management center (人力資源管理中心) and legal department (法務部). They oversee, support and facilitate the operations of our regional project companies, including city and site selection, product positioning, design, cost control, public tenders, contract execution, construction and technical quality control, sales and marketing, financing, legal compliance and human resources.

The following chart sets forth our management and reporting structure:



Integrated Management Structure

We have adopted a two-tier management system with our headquarters as the first tier and the regional project companies as the second tier. Our headquarters and regional project companies work closely together in developing projects. Our headquarters is responsible for making strategic decisions about project development, while the regional project companies are responsible for the day-to-day operations of their respective property development projects. We develop, plan and execute our projects with a systematic approach that is responsive to new developments in the fast-evolving business and regulatory environments of the PRC property market. This management system and property development process allows us to effectively implement our overall strategies while retaining the ability to promptly respond to changes in local market conditions.

We have established specific procedures and policies to manage all aspects of our property development operations. Our frontline operations, comprising property development, sales and marketing and property management, are undertaken by our regional project companies. Our regional project companies are supported and monitored by our headquarters in respect of quality control, supply and procurement, budgeting and financial reporting.

In terms of division of responsibilities, our headquarters is responsible for:

- formulating strategies and budgeting;
- city and site selection;
- making decisions on land acquisitions and financing;
- exploring and entering new geographical markets;
- architectural design and product research and development;
- marketing planning;
- cost assessment and procurement;

- establishing corporate-wide operation and information technology systems;
- construction and technical quality control;
- legal compliance of our operations and corporate governance;
- formulating human resources policies;
- formulating accounting policies;
- internal control and internal audit; and
- maintaining investor, public and government relations.

Our regional project companies attend to the day-to-day operations of their respective property development projects. Our regional project companies are responsible for:

- implementing land acquisition decisions;
- obtaining government permits required for project development;
- engineering, construction and project management;
- sales and marketing;
- providing after-sales services to customers and managing customer relations; and
- providing property management services.

Our Standardized Property Development Process

We apply our standardized property development process across our entire value chain of business operations. The following diagram summarizes our standardized property development process:

| Site Selection | Land Acquisition | Project Planning and Design | Pre-construction | Financing | Contracting, Procurement, Project Management and Quality Control | Sales and Marketing | Completion, Delivery and After-sales Services |
|--|--|---|--|--|---|---|--|
| <ul style="list-style-type: none"> • identify potential site • conduct market research and feasibility study • obtain final approval from the investment committee at our headquarters • monitor auction opportunities | <ul style="list-style-type: none"> • acquire land through public tender, auction or listing-for-sale, or acquire land use rights in the secondary market or acquire project companies directly from other developers • obtain land use rights certificates | <ul style="list-style-type: none"> • establish in-house design team responsible for the overall planning and design • work with third-party design firms to develop and finalize design • cost and 'budget control and product positioning | <ul style="list-style-type: none"> • obtain necessary governmental permits/ certificates • comply with idle land related regulations | <ul style="list-style-type: none"> • consolidate funds from internal financial resources and external borrowings such as bank loans and trust loans | <ul style="list-style-type: none"> • engage construction contractors through bidding • procure construction materials • close on-site supervision of the construction process • ensure internal quality control | <ul style="list-style-type: none"> • comply with pre-sale statutory requirements • determine sales and marketing plans and policies | <ul style="list-style-type: none"> • deliver completed properties • provide after-sales customer services including mortgage and registration assistance and handling complaints • provide property management services • collect and analyze customer data and feedback |

Site Selection

The new project development department at our headquarters is responsible for market research, identifying cities and sites for potential property development opportunities and performing primary screening. The new project development department at our headquarters conducts preliminary feasibility studies to critically assess and evaluate the potential of the target cities and the development sites and the optimal positioning of the products to be developed in such cities and sites.

The primary criteria in our site evaluation include the following:

- location and size;
- demographics, purchasing power, target customer demand and expected growth of the area/district in which the land is located;
- government development plans for the relevant site and the neighboring area;
- development prospects, taking into account social, economic and environmental effects;
- transportation access and infrastructure support;
- product positioning;
- estimated development costs and time, including demolition and resettlement costs and schedule;
- expected financial return;
- local competitive environment; and
- applicable zoning regulations and government preferential policies.

If we decide to proceed with a particular project, the new project development department at our headquarters, with the assistance of other departments at our headquarters, will prepare an in-depth feasibility study which includes product positioning, project planning and design, financial projection and return analysis. The feasibility study report will be submitted to the investment committee (投資決策管理委員會) at our headquarters, consisting of members of our senior management and heads of all the departments at our headquarters. The investment committee considers and assesses the costs, return, capital requirements and resources requirements of the proposed project against our available resources and its compatibility with our strategic direction.

We regularly monitor announcements made by local governments in relation to public tenders, auctions or listing-for-sale of land parcels, and maintain good relationships with real estate agents and brokers to obtain information on suitable projects in the secondary market.

Land Acquisition

There are two principal ways in which we acquire land for property development in the PRC: bidding in public tenders, auctions or listings-for-bidding for land use rights in accordance with the “Rules on Bidding, Auctioning and Listing of State-owned Land Use Rights” 《(招標拍賣掛牌出讓國有建設用地使用權規定)》, which came into effect on November 1, 2007; or (ii) acquiring land use rights in the secondary market through purchase of property development projects which have not been completed or acquiring project companies with property development projects from other developers.

According to the “Rules on Bidding, Auctioning and Listing of State-owned Land Use Rights”, all land to be developed for commercial purposes, including that for retail, commercial or residential property development purposes, must be granted through public tender, auction or listing-for-sale on the land exchanges. In the case of public tender, the relevant authorities will assess either solely on tender prices or, alternatively, by reference to a matrix of parameters, including tender prices, credit record of the bidders, quality of the development proposals, in determining whom to grant such rights. Where land use rights are granted through auction or listing-for-sale, however, the highest bidder normally wins. A land use rights granting process through public tender, auction or listing-for-bidding consists of following steps: paying bidding deposit and bidding in public tender, auction or listing-for-bidding for land use rights; winning the public tender, auction or listing-for-bidding process conducted by the local government authorities; entering into the land grant contract; and paying the land premium and receiving the land use rights certificate.

Grantees of land use rights may dispose of their land use rights through private sales, subject to the terms and conditions of the original land use right grant contracts and the relevant PRC laws and regulations. To the extent permitted by law, we may acquire land use rights in the secondary market from third parties through negotiated transfers. We may also obtain such rights by acquiring equity interests in companies that hold the relevant land use rights.

During 2017, 2018, 2019 and the first half of 2020, we obtained all of our land use rights through tender or listing-for-sale in accordance with the “Regulations on the Granting of State-Owned Land Use Rights through Public Tender, Auction and Listing-for-sale,” except as set out below:

| Project | Means of Land Acquisition | Consideration for Acquisition | Basis of Determination of Consideration |
|--------------------------------|--|--------------------------------------|--|
| | | (RMB million) | |
| Shantou hospital | Acquisition of project company in the secondary market | 208.3 | By arm’s-length negotiation |
| Shenzhen Nanshan | Acquisition of project company in the secondary market | 678.0 | By arm’s-length negotiation |
| Chongming Island | Acquisition of project company in the secondary market | 1,058.5 | By arm’s-length negotiation |
| Butterfly Hotel | Asset Acquisition | 668.3 | By arm’s-length negotiation |
| Ezhou Huarong District Project | Acquisition of project company in the secondary market | 8.8 | By arm’s-length negotiation |

Project Planning and Design

We have strong in-house design capabilities and have established a dedicated in-house planning and design institute at our headquarters responsible for the overall planning and design of our projects. The planning and design institute at the headquarters has professional engineers specialized in planning, architecture, structure, mechanics, gardening and decoration. We also have a design team at each of our regional project companies responsible for assisting the work of the planning and design institute at our headquarters at early stage, reviewing construction drawings and any subsequent changes and resolving the issues arising from on-site designing.

To achieve distinctive designs and operational efficiency, we outsource some of the conceptual design work to selected international design firms such as WY Design International Limited, with which we have established long-term relationships. For construction drawing design, we normally engage domestic design firms with Grade A qualifications that work closely with those international concept design firms, such as Beijing Institute of Architectural Design (Group) Co., Ltd and China Building Technique Group Co., Ltd. We also engage international and domestic design firms including Belt Collins International (HK) Limited and Ricky Wong designers Ltd. for the landscape and interior design of some of our projects. In selecting design firms, we consider their proposed design concepts, reputation in terms of reliability and quality and price. Our in-house design team works closely with these selected design firms to transform the design into a detailed design proposal for approval by the relevant PRC government authorities. Once approved, such proposal becomes the basis for the construction of the relevant project or project phase. Our in-house design team also actively monitors the progress and quality of the appointed design firms to ensure that their work meet our specifications.

Depending on the type of properties to be developed, the planning and design institute at our headquarters commences the preliminary design work for each property development project at the site selection stage. This enables us to commence construction shortly after we have received the requisite approval to develop a land parcel, which shortens our project development cycle. Our procurement, cost control, engineering and marketing planning teams also participate in the preparation of the detailed design proposal for each project or project phase to ensure accurate product positioning and attractive financial return.

Project Financing

We finance our projects primarily through internal cash flows, including proceeds from pre-sales and sales of our properties, and bank and other borrowings.

We use proceeds from the pre-sales and sales of our properties to fund part of the construction costs of the relevant projects and repay the bank borrowings. Proceeds from the pre-sales form an integral source of the operating cash inflows during our project development. According to the PRC laws and regulations, we may pre-sell properties under construction after certain criteria are met. We seek to finance our property development projects with internal resources to the extent practicable.

To the extent necessary and subject to the guidelines issued by the CBRC, we also fund our projects with bank borrowings. The terms of our bank borrowings generally require us to apply the proceeds from such bank borrowings exclusively for the specified projects or project phases. We also finance our projects through other borrowings such as trust loans. As of June 30, 2020, the outstanding balance of our current and non-current bank borrowings amounted to RMB19,129.1 million (US\$2,707.5 million), which are primarily provided by major commercial banks in the PRC.

Our ability to finance our projects also depends on the economic and regulatory measures introduced by the central and local governments, which are often intended to stabilize the property market in China. In particular, any decisions to raise the reserve ratio by the PBOC will limit the amount available to commercial banks for lending and our ability to obtain financing from commercial banks. See the section entitled “Risk Factors — Risks Relating to Our Business — Our total interest expenses for our borrowings are subject to changes in interest rates.”

Contracting, Procurement, Project Management and Quality Control

Contracting and Procurement

We engage qualified contractors to undertake all of the construction work for our property development projects including, among other things, foundation digging, general construction and installation of equipment, as well as decoration and engineering work. We select such contractor through a tendering process in accordance with the “Law on Tender and Bidding of the PRC” (中華人民共和國招標投標法) and the “Tender Law & the Rules on the Tender Scope & Criteria for Construction Projects” (《工程建設項目招標範圍和規模標準規定》). The tendering and procurement center at our headquarters manages the tendering process. As part of the tendering process, we undertake thorough due diligence, including but not limited to:

- pre-screening contractors to bid;
- conducting interviews with bidders and requesting confirmation and undertakings with respect to their cash flows, experience and credentials; and
- conducting independent research and investigation to verify the credentials and track record submitted by the bidders.

We screen out bidders that do not meet our criteria. We take into account the quality and price quoted and the construction plan prepared by the bidders in selecting a winner bidder. The winner will enter into a construction contract with us. Our headquarters and regional project companies divide their responsibilities for selecting contractors based on the following criteria:

- For each of the construction contracts with value of more than RMB3.0 million, the tendering and procurement center at our headquarters is responsible for selecting the qualified bidders, with the participation of the cost management center, operation and engineering management center and planning and design institute at our headquarters and the assistance of the relevant regional project company, while the tendering management committee (招投標領導小組) at our headquarters, comprising the president and vice presidents of the Company and heads of the tendering and procurement center, cost management center, operation and engineering management center and planning and design institute at our headquarters, determines the winning bidder;
- For each of the construction contracts with value of more than RMB1.0 million but less than RMB3.0 million, the relevant regional project company is responsible for selecting the qualified bidders and determining the winning bidder, with the participation of the tendering and procurement center at our headquarters. The tendering management committee at our headquarters approves the decision on selecting the winning bidder; and
- For each of the construction contracts with value of less than RMB 1.0 million, the relevant regional project company determines the winning bidder.

We enter into a general construction contract with each of our general construction contractors, pursuant to which the general contractor must provide warranties in respect of the quality and construction completion schedules and will be liable for any delay in the construction and bear the costs of rectifying any construction defects. We pay our general contractors in stages in accordance with the payment schedules set forth in our general construction contracts. The percentage of each stage payment varies from case to case. In general, we pay our general contractor for approximately 80% of the work completed on a monthly basis. Our general contractor normally receives approximately 95% of the total payment by the time the project is completed and we retain the remaining 5% as retention money for a period of two to five years. During 2017, 2018, 2019 and the first half of 2020, we did not experience

any incident where the retention amount was less than the amount we had to pay to correct construction work defects. During 2017, 2018, 2019 and the first half of 2020, we were not subject to any penalty, material claim or direct loss resulting from unsatisfactory work performed by third-party contractors or from construction delays.

The tendering and procurement center at our headquarters coordinates the procurement of construction materials and equipment. We source a portion of key construction materials and equipment, especially those affecting product quality such as elevators, doors, windows, stone materials and interior decoration materials directly from our suppliers, while our general contractors are responsible for procuring other materials such as cement and steel. For some of the materials which general contractors are responsible for procuring, we may designate more than two suppliers with good reputation and credit history for our general contractors to choose from. Some of our general construction contracts with general contractors provide benchmark market prices of major construction materials, such as steel, to be procured by general contractors. In the event market price fluctuates beyond 5% of the benchmark price, our payments to our contractor will be adjusted according to an agreed formula to reflect the effect of such fluctuation. We determine whether to include such benchmark price provisions in our construction contracts by negotiation on a case-by-case basis, taking into consideration, among other things, the term of the contract, the prevailing market conditions and the contract price. In order to minimize our exposure to fluctuations in construction material prices, in the event that we expect significant increases in the prices of certain construction materials, we will make prepayment to our contractors and ask our contractors to procure such materials to be used in future.

For the construction materials and equipment which we are responsible for procuring, we select suppliers through a tendering process. We implement centralized procurement for equipment and materials that can be used in our projects all over the country, such as elevators and doors, to benefit from economies of scale. For the materials and equipment that need to be tailored to the local preferences, such as interior decoration materials, our headquarters and regional project companies divide their responsibilities for procurement based on the amount of the contract value. We maintain strict quality control procedures for the selection, inspection and testing of materials. The engineering management team of the relevant regional project company inspects the materials on site to ensure compliance with the contractual specifications before accepting the materials and approving payment. We reject and return to suppliers any materials that do not comply with our requirement.

We have established a database for qualified suppliers, including construction contractors, design firms and suppliers for construction materials, which we have selected based on their reputation, credit record and history of transactions with us. We have formed a panel consisting of members of the tendering and procurement center and operation and engineering management center at our headquarters and the cost management teams and engineering management teams of our regional project companies to evaluate their performance on an annual basis. In addition, we engage professional cost consulting firms to provide consulting services with regard to tendering process.

Project Management, Quality Control and Construction Supervision

The engineering management team of each of our regional project companies comprises qualified engineers and conducts on-site supervision on a daily basis to monitor the progress of construction and quality of construction workmanship. Close supervision is key to avoiding unnecessary delay in the construction process. It enables us to identify defects and issues in the work carried out by the construction contractors and ensure timely rectification of the same. In addition, the cost management team of each of our regional project companies reports on a monthly basis to the cost management center at our headquarters to monitor and assess the costs incurred in each of our projects.

We implement strict quality control measures to ensure the quality of our properties. Our quality control measures focus on the following aspects:

- selection of design firms and contractors;

- selection, inspection and testing of construction materials and equipment;
- establishment of quality control standards; and
- on-site inspection of construction processes by the engineering management teams of our regional project companies.

We implement standardized technical guidelines to ensure that the construction of all our projects complies with relevant laws, regulations, and other compulsory standards promulgated by the relevant PRC government authorities and industry associations. These guidelines form part of the construction contracts we enter into with the construction contractors that such construction contractors must comply with.

We closely monitor the construction processes of our projects. In addition to monitoring by the engineering management teams of the regional project companies, the operating and engineering management center at our headquarters, which comprises professional engineers, conducts regular inspections of all of our construction sites to ensure that the construction quality and safety control comply with our quality control guidelines and all relevant laws, regulations and industry standards. Our contractors are also required to produce progress reports each month. We do not allow our contractors to subcontract or transfer their contractual arrangements with us to any third party.

In compliance with the relevant PRC laws and regulations, we engage qualified independent third-party professional firms to monitor certain aspects of our project construction as specified by the relevant PRC laws and regulations. These construction supervision companies conduct on-site quality and safety control inspection on all construction materials and workmanship and monitor the progress of construction, work site safety and the construction completion schedules.

The engineering management team, together with the design team and sales team of the regional project company and the property management company of the respective project, inspect each unit of our completed property development to ensure it is in satisfactory condition before delivery to the customer.

We are not responsible for any labor issues of our contractors or accidents and injuries that may occur during construction. These risks are borne by the contractors, as provided in our contracts with them. However, our strict quality control measures require our contractors to comply with the relevant rules and regulations including environmental, labor, social and safety regulations to minimize our risks and liabilities. During 2017, 2018, 2019 and the first half of 2020, we were not involved in any disputes with our contractors nor were there any cases of material personal injury or death involving our contractors that had a material and adverse effect on our business.

Contract Management System

We have established a contract management system as part of our management information system to record, among other things, the payment schedule of each construction or procurement contract we have entered into and the feedback in respect of each of the construction contractors, design firms and suppliers we have engaged. The contract management system helps us manage our payments and development costs and evaluate the quality of our suppliers and service providers.

Sales and Marketing

Marketing

We have a dedicated in-house marketing and planning management center at our headquarters responsible for the overall supervision of sales and marketing of all of our projects. The sales teams of our project companies implement the decisions of the headquarters and organize the sales process for our

projects. The marketing and planning management center at our headquarters and the sales teams of regional project companies provide valuable input throughout the property development process, including site selection, product positioning, budget planning and project design, to ensure our property development projects are well-positioned, meet customers' expectations and are appropriately and profitably priced. We also engage external real estate sales agencies to benefit from the collective sales and marketing efforts and their customer bases.

Before land acquisition and construction of our projects: The marketing and planning management center at our headquarters and the sales teams of the regional project companies collect relevant market data and the marketing and planning management center at our headquarters assists the new project development department at our headquarters in conducting the feasibility study of each proposed land acquisition. It also participates in the product positioning and conceptual design of each of our projects. The early involvement of the marketing and planning center enables us to provide project designs tailored to the needs of our target customer base.

Before launching property pre-sale: The marketing and planning management center at our headquarters formulates strategies and plans for marketing our properties. We market our properties mainly by way of outdoor advertising, print media and the internet. The sales teams of the regional project companies also prepare and submit the benchmark unit prices and pricing related policies for our projects to our senior management for review. In addition to our approved benchmark unit prices, the selling prices of all of our properties are determined, approved and controlled in accordance with our established internal control procedures. For further information, See the section entitled “— Marketing Expenses and Pricing Control.”

Throughout and subsequent to the pre-sale period: The sales teams of the regional project companies provide comprehensive assistance to our customers, coordinate internally to address queries raised by, and collect feedback from, our customers and potential customers for us to evaluate our products and devising modifications to product designs as appropriate to address any change in market demand.

Marketing Expenses and Pricing Control

We have formulated centralized marketing expenses and pricing control policies to determine and control marketing expenses and to set selling prices for our projects, having due regard to market demand and sentiment from time to time. Before the commencement of pre-sale, the president of the Company determines and approves the marketing budget for our properties and the benchmark selling price for each property type. Such budget and benchmark selling price are determined based on the recommendation by our regional project company and adjusted monthly.

Pre-sale

We generally commence pre-sale of our properties before completion of construction. We normally launch pre-sale after a fully-furnished replica of each major floor plan in a project or project phase is established which offers our potential customers the most accurate and descriptive representation of the property we are selling. We use the proceeds received from the pre-sale of our properties to finance our project development.

Various PRC laws and regulations governing pre-sale of properties impose conditions to be fulfilled before the pre-sale of a particular property can commence. These conditions include obtaining the relevant construction land planning permit, land use rights certificate, construction work planning permit, construction work commencement permit and pre-sale permit. In addition, property developer must use a standard form of pre-sale contract prescribed by the local authorities.

During 2017, 2018, 2019 and for the first half of 2020, we did not experience any significant delays in obtaining the aforesaid certificates and permits. For details of the laws and regulations governing pre-sales, See the section entitled “Regulation.”

Completion, Delivery and After-sales Services

Customers Payment Arrangements

Our customer may purchase our property either by one lump sum payment or by mortgage financing. If our customer chooses to settle the purchase price by making one lump sum payment, such customer must fully settle the purchase price shortly after the execution of the sale and purchase contract. If the customer chooses to settle the purchase price by mortgage financing, such customer must pay a down payment upon signing of the sale and purchase contract in accordance with the terms stipulated thereof. Typically, upon confirmation of the sale, the customer must make a down payment of no less than 30% of the purchase price in the case of purchase of residential property and 50% of the purchase price in the case of purchase of commercial property. The remainder of the purchase price is normally paid by the mortgagee bank within two to three months, depending on the approval process of the relevant mortgagee bank. If the customer chooses to fund the purchase by a mortgage loan from a bank, we assist such customer in applying for such mortgage loan as needed. The payment terms for sales and pre-sales of our properties are substantially identical.

In line with market practice, we have entered into arrangements with various banks for the provision of mortgage financings to our customers. We do not conduct independent credit checks on the purchasers, but rely on credit checks conducted by the relevant banks. As with other property developers in the PRC, the banks usually require us to guarantee our customers’ obligations to repay the mortgage loans on the properties. The guarantee period normally lasts until the bank receives the strata-title building ownership certificate (分戶產權證) from the customer as security of the mortgage loan granted. As of June 30, 2020, our outstanding guarantees in respect of the mortgages of our customers amounted to RMB8,801.2 million (US\$1,245.7 million). If a purchaser defaults under a mortgage loan during the term of the guarantee, we are obligated to repay the balance of the mortgage loan owed by such purchaser to the mortgagee bank under the loan. Under such circumstances, we are entitled to forfeit the down payment received and sell the repossessed properties. During 2017, 2018, 2019 and for the first half of 2020, we did not encounter any incident of default by purchasers.

Delivery of Properties for Sale

We aim to deliver properties to our customers within the time frame prescribed in the sale and purchase contracts (including the pre-sale contracts). Under the current PRC laws and regulations, we must obtain the completion certificate or pass the on-site examination and inspection before delivering properties to our customers. For details of the PRC laws and regulations governing delivery of properties for sale, See the section entitled “Regulation”. During 2017, 2018, 2019 and for the first half of 2020, we did not experience any significant delays in the completion of our projects or delivery of relevant title documents after sale.

We also aim to deliver quality properties and satisfactory purchasing experience to our customers. Before delivery of properties to our customers, the engineering management team, together with the design team and sales team of the regional project company and the property management company of the respective project, conducts on-site inspections to ensure such properties are in satisfactory condition. The sales team and customer services team of the regional project company then arrange for our customers to inspect their purchased properties before the expected delivery date to ensure the properties meet our prescribed standards as well as our customers’ expectations. The sales team and customer services team of the regional project company also assist customers in applying for strata-title building ownership certificates and stay closely in touch with them after delivery to gather feedback for future improvement of our products and services.

After-sales Services

The sales teams and customer services teams of the regional project companies are responsible for our after-sales customer services and the formulation of customer services processes and standards. We provide comprehensive after-sales services including assisting customers in obtaining property ownership certificates and handling customer complaints. We are also responsible for supervising the repair and ongoing maintenance of the properties we have developed. In addition, the sales teams of our regional project companies also collect and analyze customer data to identify the latest market trends and conduct customer satisfaction surveys to improve our projects' market positioning, design, marketing strategies and quality of services.

Property Management

We believe our property management services enhance property value for our customers and improve our brand recognition and reputation. We provide property management services to owners of most of the properties developed by us through our own property management company, which holds valid level two property management permit. Our property management company normally participates in the early stage of property development and throughout the overall planning and design and sales and marketing stages to minimize future maintenance costs. We engage external property management companies to provide consulting services during the sales cycle.

We typically enter into property management contracts with property owners, which specify the services to be offered, the scope of such services, the quality requirements and the fees to be charged for such services. Our property management services include maintenance and security of common areas, gardening and landscaping, cleaning, fire protection and rental agency services. We charge our customers management fees on a semi-annual or annual basis. In accordance with PRC laws, we may not assign overall management obligations to third parties but may outsource certain responsibilities (such as cleaning and security services) to third parties. According to relevant laws and regulations, we cannot increase the fee rate set out in the property management contracts without the approval of the majority of property owners.

Under PRC laws, property owners have the right to engage or dismiss a property management company after going through a duly voting procedure. We conduct annual customer surveys on our management performance to constantly improve our services. As of June 30, 2020, our property management companies have not been dismissed from the management of any properties.

PRIMARY LAND DEVELOPMENT

Apart from engaging in property development projects, we also actively undertake primary land development projects as a strategic business in order to access potentially available land reserves. Primary land development refers to the process of preparing land to conditions ready for public tender, auction and listing-for-sale. It typically involves relocating existing business establishments and residents on the land, demolishing existing buildings and other structures, clearing the site and installing basic infrastructure for future commercial property development. Resettlement may be accomplished by way of (a) cash compensation (貨幣補償); (b) provision of resettlement residential properties developed or purchased by primary land developers (異地安置) or (c) provision of resettlement residential properties to be developed on the original site (原址回遷) in exchange for the existing residents' properties that are to be demolished. After completion of a primary land development project, we will engage a third-party valuer selected by the government to review the total development costs we reported and the government will generally compensate us in the amount of total assessed development costs determined by the government based on the independent valuation conducted by such valuer and a reward of a specific percentage of the total assessed development costs and make such payment in a lump sum. Development costs of primary land development comprise primarily resettlement compensation and sub-contracting charges of demolition and resettlement work. We have undertaken primary land development and under the "Urban Redevelopment", policy projects in Beijing, Shantou and Chaozhou.

Beijing

Since September 2007, we have undertaken a primary land development project in Beijing, namely, the West Qinian Street project, with a planned GFA of approximately 474,304 sq.m., comprising five land parcels. The site of West Qinian Street project is located on the west side of Qinian Street and is less than one kilometer from Tiananmen Square. As of June 30, 2020, the transfer of the Land No. 1 of the Qixi Project by agreement has been completed; currently, the demolition and relocation of the Land No. 4 has been completed and the relevant housing authority has confirmed its conclusion; the demolition and relocation of private properties on the Land No. 5 has been completed, and the remaining two enterprises and institutions are pending for demolition and relocation. At present, the remaining private properties, enterprises and institutions of Qixi Project to be demolished and relocated are mainly located on the Land No. 2 and the Land No. 3.

Shantou

Pursuant to the cooperation agreements with local self-governing organizations and enterprises under the “Urban Redevelopment” policy, we undertook the development of land parcels in Shantou, which comprises four development projects with a total planned GFA of approximately 4.3 million sq.m. during the first half of 2014. The local self-governing organizations and enterprises have agreed to cooperate in development and construction of the relevant land parcels with us after completion of the requisite government procedures under the relevant local regulations. As of June 30, 2020, we have completed the development of two projects, another one project was suspended due to policy issues in the first half of 2019 and the remaining project is Zhoucuowen Old Village Sub-district Redevelopment Project (the “Zhoucuowen” Project) which is located at the east of Taishan Road of Northeastern Shantou city. The Zhoucuowen project has a site area of 933,333 sq.m. and a planned GFA of approximately 2.33 million sq.m. According to the Reply of Shantou Municipal Government Regarding the Redevelopment Plan of “Urban Redevelopment” Project of Zhoucuowen Economic Association (East Subdistrict of Old Village), Longhu District, Shantou City (《汕頭市人民政府關於汕頭市龍湖區周厝壩經濟聯合社(舊村莊東片區)「三舊」改造項目改造方案的批覆》) dated March 18, 2019, this sub-district has a site area of 6.67 hectares (66,700 sq.m.) and a total GFA of 145,000 sq.m. Currently, compensations for the demolition and relocation of villagers’ former residences are under negotiation and surrounding municipal facilities are yet to be completed. The remaining land parcels under the redevelopment of Zhoucuowen old village are still under discussion. Under the principle of “developing a sub-district only when the conditions permit (條件成熟一片、開發一片)”, Shantou Company will report its annual “urban redevelopment” plan and redevelopment scheme when development conditions permit.

Shenzhen

In the first half of 2014, Shenzhen Dachaoshan entered into a cooperation agreement with Shenzhen Longgang Xikeng Co., Ltd. (深圳市龍崗區西坑股份合作公司) to carry out urban renewal of the Xikeng community. The planned construction area of the project was about 3 million sq.m. we have completed the survey for the land ownership, residential population and building information in the Xikeng community, industry research, the urban renewal planning research program and consultation. The Phase I Project with a site area of 530,000 sq.m. and a planned GFA of approximately 1.4 million sq.m. had been approved by the meeting of Longgan District Government Leadership Group (龍崗區政府領導小組會) on December 14, 2018 and had completed the planning announcement in respect of the inclusion into the “2018 Longgan District Urban Renewal Plan – the Ninth Plan” (《二零一八龍崗區城市更新計劃第九批計劃》) on December 30, 2018. A further approval has been obtained from relevant governmental authorities on the project at the end of February 2019. The special planning report documents for the first renewal were filed on May 30, 2019. In March 2020, the National Development and Reform Commission approved the construction plan for Metro Line 16 (Dayun-Xikeng Section) (Phase II). Xikeng Station of Metro Line 16 (Phase II) is located within the scope of the first renewal unit. The special plan has been adjusted by us in consideration of Xikeng Station and is being submitted to the review authority for review. Meanwhile, in consideration of the demolition work arrangement of the government for the metro, we have fully started the demolition negotiation for the first renewal unit. Subsequent thereto, the establishment of other projects will be commenced.

We engage qualified contractors to carry out demolition and resettlement work for our primary land development projects, including negotiating resettlement compensation with existing residents, after we have obtained the demolition permits. Such demolition permit typically provides a time frame for completion of demolition work which can be extended through application to and approval by the relevant government authority. We select such contractors through a tendering process and take into account both the quality and prices quoted by the bidders. We pay our contractors a fixed amount per household subject to demolition and resettlement. We normally require our contractors to complete the demolition and resettlement work according to specified schedules and some of the agreements provide that we may terminate the agreements if our contractors fail to complete the work on time. We generally make payments to our contractors in stages in accordance with the payment schedules set forth in the relevant agreements, which are determined by negotiation on a case-by-case basis. Each contractor must obtain government approval and our approval before carrying out its demolition and resettlement plans. We assign engineers to monitor the quality and progress of demolition and resettlement work on-site and conduct regular inspections to ensure our contractors comply with our guidelines and relevant laws and regulations. Such engineers also liaise with local authorities to conduct on-site safety inspections as required under relevant laws and regulations. During 2017, 2018, 2019 and for the first half of 2020, there was no material disagreement or dispute among us, the government, our contractors and the residents of the properties subject to demolition.

We identify and evaluate primary land development opportunities generally through conducting comprehensive studies of the local market trends and conditions and analyzing, among other things, government plans, if any, on the future use of the land and the estimated return on investment in the primary land development operations. We undertook the primary land development of the sites of Beijing Fugui Garden in 2001 and Beijing Glory City in 2003, both of which were listed by the Beijing Municipal People's Government as key renovation projects of dangerous old houses. Our performance significantly contributed to the urbanization in former Chongwen District of Beijing and improved the local living environment, which was well-received by the local communities. As local governments generally intend to engage developers with substantial capabilities for primary land development, we believe our substantial experience and capabilities in primary and secondary land development, substantial capital resources and good reputation can help us secure primary land development opportunities with strategic value. During 2017, 2018, 2019 and for the first half of 2020, we obtained all of our primary land development projects in Beijing through direct authorization and written approval by the Beijing Municipal State-owned Land Resources Bureau (北京市國土資源局) after approval by a joint committee comprising Beijing Municipal Commission of Development and Reform (北京市發展和改革委員會), Beijing Municipal of Urban Planning (北京市規劃委員會), Beijing Municipal Commission of Construction (北京市建設委員會) (now known as "Beijing Municipal Commission of Housing and Urban-Rural Development" (北京市住房和城鄉建築委員會) and Beijing Municipal State-owned Land Resources Bureau and from the Beijing Municipal Affordable Housing, Renovation of Dangerous Old Houses and Ancient Capital Protection Leading Group Office (北京市經濟適用房、危舊房改造和古都保護領導小組辦公室). Other than obtaining the aforesaid written approval, we did not enter into any agreements with the government in Beijing to undertake our primary land development projects. We plan to continue to undertake similar projects. In addition to generating income from such projects, we expect undertaking such projects will enhance our professional image in the relevant communities, which in turn, will increase our likelihood to acquire the rights to the secondary land development of these sites when the relevant land parcels are put on tender, auction or listing-for-sale.

INVESTMENT PROPERTIES AND COMMERCIAL LEASING

We selectively retain the ownership of a substantial amount of self-developed commercial properties with strategic value to generate stable and recurring income. Our Board determines whether to sell or retain for investment commercial properties at the early stage of developing each of our projects. Our decision on whether to sell or retain a commercial property depends on various factors such as location, regional market conditions, supporting commercial facilities and our commercial interests. As of June 30, 2020, we had investment properties with a total GFA of 983,960 sq.m. in Beijing Fugui Garden, Beijing Glory City, Beijing Bei Wu Lou, Shenyang Glory City, Shantou Glory City, Eudemonia Palace, Beijing Hademen Center, Shenzhen • Nanshan, Haikou Glory City and Foshan Glory Shengping Commercial Center.

The table below sets forth a summary of information on our investment properties as of June 30, 2020:

| Project | Types of Properties | Total GFA Held for Investment | Leasable GFA | Effective Leased GFA |
|---|------------------------------|-------------------------------------|--------------|-------------------------|
| | | (sq.m.) | (sq.m.) | (sq.m.) |
| Beijing | | | | |
| Beijing Glory City | Shopping mall | 84,904 | 46,366 | 42,911 |
| | Offices | 8,520 | 8,520 | 5,180 |
| | Car parking spaces | 26,324 | 26,324 | 21,779 |
| | Retail outlets | 33,032 | 29,546 | 15,069 |
| | Siheyuan (四合院) | 7,219 | 7,219 | 4,340 |
| Eudemonia Palace | Car parking spaces | 3,431 | 3,431 | 3,431 |
| Beijing Fugui Garden | Shopping mall | 26,146 | 26,146 | 20,224 |
| | Retail outlets | 3,170 | 3,170 | 2,594 |
| Beijing Hademen Center | Commercial | 15,671 | 14,703 | 9,977 |
| | Offices | 75,171 | 69,830 | 64,118 |
| | Car parking spaces | 29,040 | 23,917 | 2,478 |
| Beijing Bei Wu Lou | Offices | 10,916 | 10,916 | 10,916 |
| Shantou | | | | |
| Shantou Glory City | Specialized markets | 62,398 | 62,398 | 61,735 |
| Shenyang | | | | |
| Shenyang Glory City | Specialized markets | 50,841 | 50,841 | 16,680 |
| | Retail outlets | 58,972 | 58,972 | 4,031 |
| Foshan | | | | |
| Foshan Glory Shengping | Retail outlets | 24,267 | 24,267 | 13,785 |
| | Commercial Center | Car parking spaces | 10,722 | 10,722 |
| Foshan Glory Shengping | Retail outlets | 225,531 | — | — |
| | Commercial Center* | Car parking spaces | — | — |
| Shenzhen | | | | |
| Shenzhen • Nanshan* | Offices | 42,763 | — | — |
| Haikou | | | | |
| Haikou Glory City | Offices | 30,007 | 30,007 | 28,729 |
| Handan | | | | |
| Handan Ruicheng Commercial Building | Commercial | 154,915 | — | — |
| Total | | 983,960 | 507,295 | 327,977 |

* Projects currently under construction.

We derive stable and recurring income from a diversified portfolio of commercial properties and car parking spaces, we select our tenants based on factors such as the positioning of the project, market demand in surrounding areas, level of market rent and needs of the tenants. Our tenants include major anchor tenants which increase the attractiveness of our investment properties and visitor volume. We have entered into strategic cooperation agreements with various tenants including catering and entertainment operators, apparel and home furnishing manufacturers and retail chains, which enables us to rapidly expand our investment property portfolio into selected regional markets. We believe our investment strategy, by combining a diverse mix of tenants, effective advertising and flexible leasing arrangements, will generate steady recurring income and result in significant appreciation of our investment properties.

Our rents are typically determined based on the prevailing market rates. The rent payable by our retail tenant is normally the higher of a fixed monthly rate and a turnover-based rate calculated by reference to a pre-determined percentage of our tenant's monthly sales turnover (the "Turnover Rental"), which is usually determined by our tenant and us based on, among others, the GFA leased by our tenant and reputation of our tenant. We typically require our tenant to prepay a fixed-rate rent on a monthly basis and pay the excess of Turnover Rental over the fixed rate, if any, by the first half of the following month. We selectively offer concessions such as rent-free periods for interior decoration to our tenants. We usually require our tenant to pay security deposits of three months' fixed-rate rent plus three months' property management fees for our investment properties. If our tenant breaches the relevant lease agreement, we are entitled to deduct or retain the security deposits they have paid. Our tenants have the right to renew their leases by giving us a three-month prior written notice, and they have the right of first refusal according to the lease agreements. In addition to our rents and property management fees, we also charge our retail tenants fixed-rate promotion fees on a monthly basis for our marketing activities and advertising plans for our investment properties.

Our profitability may be subject to fluctuation according to the revaluation of our investment properties. See the section entitled "Risk Factors — Risks Relating to Our Business — Our financial results included changes in fair value of investment properties and our results may fluctuate due to such changes in the fair value of our investment properties." Depending on the general economic and market conditions, we intend to maintain an optimal mix of properties for sale and for investment and strategically increase the proportion of investment properties in our property portfolio, thereby enhancing the sustainability of our revenue streams, diversifying the policy and operating risks we face in the residential property market and supporting our long-term growth.

PROPERTY MANAGEMENT

We provide property management and related services to owners of the properties developed by us and generate income from providing such services. See the section entitled "— Project Development Management — Our Standardized Property Development Process — Completion, Delivery and After-sales Services — Property Management" for details.

CORPORATE GOVERNANCE AND LEGAL COMPLIANCE

Our overall corporate governance and legal compliance management is carried out across our integrated organizational structure through the work of (1) the legal department at our headquarters that formulates and monitors the implementation of our corporate governance and compliance standards and (2) all operation departments at our headquarters and our regional project companies that implement such standards. The legal department at our headquarters institutionalizes our legal and compliance management, provides legal training to our employees, keeps active communication with the relevant government authorities, improves our legal and regulatory compliance and enhances our corporate governance.

CUSTOMERS AND SUPPLIERS

Our customers for residential properties are primarily individual purchasers in the PRC. Our customers for commercial properties primarily include various types of corporations and other business entities. Our five largest customers accounted for less than 30.0% of our total revenue for the years ended December 31, 2017, 2018 and 2019, respectively, and our largest customer accounted for 0.9%, 1.8% and 2.4% of our total revenue for the years ended December 31, 2017, 2018 and 2019, respectively. Our five largest customers during such periods included individuals and corporations for the purchase or lease of our residential properties and commercial properties and local government and public service units for our services rendered in our primary land development projects. The length of their business relationship with us ranges from one year to seven years. Our five largest customers during such periods are independent third parties of our Group.

Our major suppliers are construction material and equipment suppliers, construction contractors and design firms. We have access to a wide range of construction contractors and design firms. All of our major contractors and design firms are sizeable, and are properly qualified in respect of the construction and design work contracted to them. Some of such contractors or design firms have a greater-than-10-year business relationship with us. Our five largest suppliers accounted for less than 30.0% of our total purchases for the years ended December 31, 2017, 2018 and 2019, respectively. Our largest supplier accounted for 10.6%, 21.1% and 24.6% of our total purchases for the years ended December 31, 2017, 2018 and 2019, respectively. Our five largest suppliers during such periods are general construction contractors and the length of their business relationship with us ranges from two years to 12 years. Each of our five largest suppliers during such periods is an independent third party of our Group.

AWARDS AND RECOGNITIONS

Over the past years, we have received widespread recognition. The table below sets out some of the awards we received in respect of our property development operations:

| Year | Recipient/Project | Awarding Body | Award/Recognition |
|-------------------------------|---------------------------|--|--|
| Corporate Level Awards | | | |
| 2020 . . | Guorui Properties Limited | CRIC China (克而瑞資料研究中心) | Ranked 17th in the TOP30 list of real estate companies in Beijing in 2019 (2019年北京市房企全口徑金額榜TOP30第17位) |
| 2019 . . | Guorui Properties Limited | Leju Finance (樂居財經) | Ranked 16th among the top 100 Chinese listed real estate companies in average sales price in the first half of 2019 (2019上半年中國上市房企銷售均價榜100強第16位) |
| 2019 . . | Guorui Properties Limited | China Real Estate Association (中國房地產業協會)/China Real Estate Appraisal Center (中國房地產測評中心) | Ranked 69th among the Top 100 Chinese Real Estate Listed Companies in Comprehensive Strength in 2019 (2019中國房地產上市公司綜合實力100強第69位) |
| 2019 . . | Guorui Properties Limited | China Real Estate Association (中國房地產業協會)/China Real Estate Appraisal Center (中國房地產測評中心) | 2019 China's top 5 listed real estate companies for risk control (2019中國房地產上市公司風險控制5強) |
| 2019 . . | Guorui Properties Limited | China Real Estate Association (中國房地產業協會)/China Real Estate Appraisal Center (中國房地產測評中心) | Top 10 Responsible Real Estate Companies in China in 2019 (2019中國房地產開發企業責任地產10強) |
| 2018 . . | Guorui Properties Limited | China Real Estate Association (中國房地產業協會)/Shanghai E-House Real Estate Research Institute (上海易居房地產研究院)/China Real Estate Appraisal Center (中國房地產測評中心) | 2018 Best 100 of China Real Estate Developers (2018中國房地產開發企業100強) |

| Year | Recipient/Project | Awarding Body | Award/Recognition |
|------|---------------------------|---|---|
| 2017 | Guorui Properties Limited | Enterprise Research Institute, Development Research Center of the State Council (國務院發展研究中心企業研究所)/Real Estate Research Institute of Tsinghua University (清華大學房地產研究所)/China Index Academy (中國指數研究院) | 2017 China Real Estate Top 100 Enterprise (2017中國房地產百強企業) |
| 2016 | Guorui Properties Limited | Enterprise Research Institute, Development Research Center of the State Council (國務院發展研究中心企業研究所)/Real Estate Research Institute of Tsinghua University (清華大學房地產研究所)/China Index Academy (中國指數研究院) | 2016 China Real Estate Top 100 Enterprise (2016中國房地產百強企業) |
| 2016 | Guorui Properties Limited | Enterprise Research Institute, Development Research Center of the State Council (國務院發展研究中心企業研究所)/Real Estate Research Institute of Tsinghua University (清華大學房地產研究所)/China Index Academy (中國指數研究院) | China Mainland Real Estate Company Top 10 listed in Hong Kong in terms of Investment Value Ranking (中國大陸在港上市房地產公司投資價值TOP10) |
| 2016 | Guorui Properties Limited | China Index Academy (中國指數研究院) | Top 100 of "Sales Results List of Branded Real Estate Enterprises for the First Half of 2016" (2016年上半年品牌房企銷售業績榜單) |
| 2013 | Original Beijing Glory | Tencent- Real Estate Henan Station (騰訊 • 房產河南站) | Driving Enterprise of Real Estate Development for 20 Years (地產發展20年推動力企業) |
| 2013 | Original Beijing Glory | China International Urbanization Development Strategy Research Committee (中國國際城市化發展戰略研究委員會) | Institution of Influence on Civilization of Year 2012 (2012中國城市化影響力機構) |
| 2012 | Original Beijing Glory | Organization Committee of Chinese Urban Construction Summit (中國城市建設峰會即建設行業公益年會組委會) | Excellent Enterprise of Chinese Urban Construction of Year 2012 (2012中國城市建設優秀企業) |

| Year | Recipient/Project | Awarding Body | Award/Recognition |
|-----------------------------|----------------------|---|--|
| Project Level Awards | | | |
| 2014 . . | Beijing Glory City | The 14th China Real Estate Development Annual Committee in 2014 (2014第十四屆中國房地產發展年會組委會)/SouFun.com (搜房網) | China International Quality Project for the Year 2014 (2014中國國際化品質樓盤) |
| 2014 . . | Beijing Glory City | China Real Estate Annual Conference and Annual List Committee (中國房地產年會暨總評榜組委會) | China High-end Property Model for the Year from 2013 to 2014 (2013-2014年度中國高端物業典範) |
| 2013 . . | Beijing Glory City | House.sina.com.cn (新浪樂居)/eju.com (易居購房網) | Most Influential Project for the Year 2013 in Beijing (2013年度北京地區最具影響力樓盤大獎) |
| 2013 . . | Zhengzhou Glory City | Hnhaofang.com (好房網) | Best Quality Project for the Year 2013 (2013年度最具品質樓盤) |
| 2013 . . | Zhengzhou Glory City | SouFun.com (搜房網) | The 10th China Real Estate Internet Popular List — Best Livable Project for the Year 2013 in Zhengzhou (第十屆中國房地產網絡人氣榜2013年度鄭州最宜居好樓盤) |
| 2013 . . | Zhengzhou Glory City | House.sina.com.cn (新浪樂居) | Ecological and Livable Project for the Year 2013 Award (2013年度生態宜居樓盤獎) |
| 2013 . . | Zhengzhou Glory City | Zhengzhou People's Government (鄭州市人民政府) | Zhengzhou Garden Community (鄭州市園林小區) |
| 2013 . . | Wanning Glory City | House.sina.com.cn (新浪樂居)/house.baidu.com (百度樂居)/eju.com (易居購房網) | Livable Model Project among Hainan Tourism Real Estate for the Year 2013 (2013海南旅遊地產宜居典範樓盤) |
| 2013 . . | Shenyang Glory City | House.sina.com.cn (新浪樂居)/house.baidu.com (百度樂居)/t.house.sina.com.cn (微房產) | Most Influential Project for the Year 2013 in Shenyang (2013年度瀋陽最具影響力樓盤) |
| 2013 . . | Shenyang Glory City | Shenyang City Good Properties Committee (瀋陽市好房子理事會)/Shenyang Four Seasons Real Estate Transactions Committee (瀋陽四季房交會組委會)/Shenyang Daily (《瀋陽日報》) | “Good Property” Award of the Annual List for the Year 2013 in Shenyang (2013年度瀋陽市好房子總評榜“好房子大獎”) |

COMPETITION

The PRC property market is highly fragmented and competitive. Our existing and potential competitors include major domestic property developers and, to a lesser extent, foreign property developers, such as leading property developers from Hong Kong. We compete with them on various factors including, but not limited to, size and the geographic location of land reserves, the types of properties offered, brand recognition, financial resources, price, design, product and service qualities. Some of these competitors may have better track records, financial, human and other resources, larger sales networks and better name recognition.

The PRC property market has substantial potential for growth. However, competition in the PRC property market has intensified in the past few years. In addition, different regions of the PRC have different regulatory requirements for property development. Consumer preference for properties also varies from region to region in the PRC. Moreover, the PRC government has implemented policies tightly controlling the amount of new land available for development, which has increased competition and land grant premium in relation to land made available for development.

We constantly strive to enhance our reputation and boost our market presence in the selected cities. We believe that, with our solid foothold in multiple regions, strategically located low-cost land reserves, substantial amount of investment properties, expertise in both primary and secondary land development and strong in-house design team, we have demonstrated resiliency to market changes and competition. Further, given our brand recognition, product creativity, creditworthiness, reputation, quality products and services and our excellent management skills in developing properties, we believe we can react promptly to the challenges in the PRC property market. For further information, See the section entitled “Risk Factors — Risks Relating to the Real Estate Industry in the PRC — We face intense competition” and “Industry Overview.”

INTELLECTUAL PROPERTY RIGHTS

We believe our well-known brand, which is formally recognized on a national level, is an invaluable asset. We conduct our business under seven trademarks which we have registered in the PRC and three trademarks which we have registered in Hong Kong. We are also the registered owner of one Internet domain name, namely, glorypty.com (information contained on such website does not form part of this offering memorandum).

As of June 30, 2020, we were not aware of any threatened or pending claims by any third party against us for use of our intellectual property rights and we were not aware of any opposition made by third parties against the registration of our trademarks under application in the PRC. As of June 30, 2020, we were not aware of any infringement (i) by us of any intellectual property rights owned by any third party, or (ii) by any third party of any intellectual property rights owned by us.

INSURANCE

According to applicable PRC laws and regulations, property developers are not required to maintain insurance coverage in respect of their property development operations. As such, we do not maintain and do not require our construction contractors to maintain insurance coverage on our properties developed for sale other than for which we are required to maintain insurance coverage under the relevant loan agreements. If we secure bank loans from a commercial bank with our properties under development, such commercial bank normally requests us to maintain insurance coverage against potential losses or damages with respect to such properties until the full repayment of the respective bank loans. We believe third-party contractors should bear liabilities from tortious acts or other personal injuries on our project sites and we do not maintain insurance coverage against such liabilities. In accordance with applicable PRC laws and regulations, we require our contractors to maintain accidental personal injury insurance for their construction workers.

We do not maintain insurance policies for properties that we have delivered to our customers. However, we do maintain property all-risks insurance for our investment properties. We also require the respective commercial management companies of our investment properties to maintain third-party liability insurance for these properties.

We also carry basic endowment insurance, basic medical insurance, occupational injury insurance and unemployment insurance for our employees in compliance with the relevant PRC laws and regulations. However, we did not register with the relevant authorities to make basic medical insurance and housing provident fund contributions for our employees in six of our subsidiaries as required under PRC laws and regulations up to July 2013. In July 2013, all these subsidiaries registered with the relevant authorities in respect of medical insurance and housing provident fund contributions and have since then made full contribution in accordance with relevant PRC laws and regulations.

There are certain types of losses, such as losses from natural disasters, terrorist attacks, construction delays and business interruptions, for which insurance is either not available at all or not available at a reasonable cost. We believe our overall insurance package is consistent with the customary industry practice in China and is adequate and appropriate for our current operations. We paid an aggregate of RMB35.7 million, RMB38.6 million, RMB43.7 million (US\$6.2 million) and RMB6.48 million (US\$0.9 million) in insurance premiums (excluding housing provident fund contributions) in 2017, 2018, 2019 and in the first half of 2020, respectively. However, we may incur losses beyond the limits, or outside the coverage, of our insurance policies. See the section entitled “Risk Factors — Risks Relating to Our Business — Our current insurance coverage may not be adequate to cover all risks related to our operations.”

PROPERTIES FOR SELF-OCCUPATION

Our corporate headquarters are located in East Block, Hademen Center, 8-1# Chongwenmenwai Street, Dongcheng District, Beijing, which is owned by us. In addition, we also maintain offices in Shantou and Foshan where we have operations. Such offices are located in leased properties owned by independent third parties or in our own properties. We do not anticipate any difficulty in renewing these leases or leasing replacement premises.

ENVIRONMENTAL MATTERS

We are subject to a number of environmental laws and regulations, including the Environmental Protection Law (中華人民共和國環境保護法), the Prevention and Control of Noise Pollution Law (中華人民共和國環境噪音污染防治法), the Environmental Impact Assessment Law (中華人民共和國環境影響評價法) and the Administrative Regulations on Environmental Protection for Development Projects (建設項目環境保護管理條例). See the section entitled “Regulation” for more details. The particular environmental laws and regulations that apply to a specific property development project vary according to the location of the project, nature of the land, the planning and design of the project, construction and/or operations and the current and expected use of the land and the properties. Pursuant to these laws and regulations, each property development project must undergo an environmental assessment. We must submit an environmental impact assessment report, environmental impact assessment form or environmental impact assessment registration to the relevant local regulatory authority of environmental protection before the relevant authority issues the construction work commencement permit for the project.

During 2017, 2018, 2019 and the first half of 2020, we incurred immaterial cost of compliance with applicable environmental laws and regulations. Our Directors expect that we will continue to incur costs to comply with applicable environmental laws and regulations at a similar rate. We require our contractors to comply with applicable environmental laws and regulations in our contracts with them and we conduct regular inspection on-site to ensure compliance and immediately require contractors to rectify any problem that may arise.

During 2017, 2018, 2019 and the first half of 2020, except for those that would not be reasonably be expected to have a material adverse effect, no fines or penalties for non-compliance of PRC environmental laws and regulations were imposed on us. As of June 30, 2020, we had not encountered any material issues in passing inspections conducted by the relevant environmental authorities upon completion of our properties. See the section entitled “Risk Factors — *Potential liability for environmental problems may delay our property development schedules and increase development costs*” of this offering memorandum for details.

LABOR AND SAFETY

We are subject to various PRC laws and regulations with respect to labor, health, safety, insurance and accidents, including the Labor Law of the PRC (中華人民共和國勞動法), the Labor Contract Law of the PRC (中華人民共和國勞動合同法), the Social Insurance Law of PRC (社會保險法), the Regulations on Work-related Injury Insurances (工傷保險條例), the Regulations on Unemployment Insurance (失業保險條例), the Trial Procedures for Childbirth Insurance for Enterprise Employees (企業職工生育保險試行辦法), Safety Production Law of the PRC (中華人民共和國安全生產法) and other related regulations, rules and provisions issued by the relevant government authorities from time to time, for our operations in the PRC.

We provide safety protective equipment to our employees and require our contractors to ensure their onsite constructions comply with applicable PRC labor and safety laws and regulations and our work safety guidelines. Our employees’ manual contains policies and procedures regarding work safety and occupational health issues. Our human resources management center at our headquarters is responsible for recording and handling work accidents as well as maintaining health and work safety compliance records. We are not aware of any material violation of applicable PRC labor and safety regulations by us or any material employee safety issues involving us during 2017, 2018, 2019 and the first half of 2020. During 2017, 2018, 2019 and the first half of 2020, no fines or penalties for non-compliance of PRC labor and safety laws and regulations were imposed on us.

EMPLOYEES

As of December 31, 2017, 2018, 2019 and June 30, 2020, we had 1,098, 1,550, 1,364 and 1,300 full-time employees, respectively.

We equip our employees with the skills and knowledge relevant to their work by providing internal and external training programs. During 2017, 2018, 2019 and the first half of 2020, we did not experience any material disruption during our normal business operations due to strikes or other labor disputes, nor was there any material labor related legal proceedings against us. We believe that our management has and will continue to maintain positive relations with the labor union and our employees.

The remuneration package for our employees generally includes salary and performance-based quarterly bonuses. As required by applicable PRC laws and regulations, we participate in various employee benefit plans by the municipal and provincial governments, including housing provident funds, pension, medical, maternity, occupational injury and unemployment benefit plans. In addition to statutory contributions, we also provide voluntary benefits to our employees, such as allowances for lunch, local transportation, communication and festivals. For the three years ended December 31, 2017, 2018 and 2019 and the first half of 2020, we incurred employee costs of RMB347.2 million, RMB399.7 million, RMB415.4 million (US\$58.8 million) and RMB172.6 million (US\$24.4 million), respectively.

LEGAL PROCEEDINGS

As a property developer in the PRC, we are subject to legal or arbitration proceedings, disputes or claims in the ordinary course of business. During 2017, 2018, 2019 and the first half of 2020, we were involved in litigation proceedings concerning the quality of our products and services and contractual arrangements with our contractors, business associates and joint venture partners. These proceedings had either been settled or are, in our view, immaterial in terms of their impact on our financial and operational conditions. Save as disclosed herein, to the best of our knowledge, there is no other litigation or claim of material importance pending or threatened against any member of our Group.

REGULATION

This section sets out a summary of the most significant PRC laws and regulations that affect our business and the industry in which we operate. These include laws relating to, among others, the establishment of real estate development enterprises, acquisition of land use rights, property development, sales or pre-sales of commodity buildings and environment protection.

ESTABLISHMENT OF REAL ESTATE DEVELOPMENT ENTERPRISES

General Provisions

In accordance with the Law of the People's Republic of China on the 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 on July 5, 1994, revised on August 30, 2007 and August 27, 2009 and latest amended on August 26, 2019 and came into effect on January 1, 2020), real estate development enterprises are defined as the enterprises that engage in real estate development and operation for the purpose of making profits. In accordance with the Regulations on the Administration of Development and Operation of Urban Real Estate (《城市房地產開發經營管理條例》) (the “**Development Regulations**”) (promulgated and implemented on July 20, 1998 by the State Council, revised on January 8, 2011, March 19, 2018 and March 24, 2019 and latest amended on March 27, 2020), the establishment of a real estate development enterprise shall, in addition to the conditions for the enterprise establishment prescribed by relevant laws and administrative regulations, fulfill the following conditions: (i) the registered capital shall be RMB1 million or above; (ii) the enterprise shall employ no less than 4 full-time technical personnel with certificates of qualifications of real estate specialty and construction engineering specialty and no less than 2 full-time accountants with certificates of qualifications. People's governments of provinces, autonomous regions and centrally-administered municipalities may, based on the actual conditions of the locality, set out more stringent requirements in respect of registered capital and technical professionals.

Foreign Investment in Real Estate Development

On March 15, 2019, the National People's Congress approved the Foreign Investment Law of the People's Republic of China (《中華人民共和國外商投資法》) (the “**Foreign Investment Law**”), which came into effect on January 1, 2020 and replace the Sino-Foreign Equity Joint Venture Enterprise Law of the People's Republic of China (《中華人民共和國外商合資經營企業法》), the Sino-Foreign Cooperative Joint Venture Enterprise Law of the People's Republic of China (《中華人民共和國中外合作經營企業法》) and the Wholly Foreign-Invested Enterprise Law of the People's Republic of China (《中華人民共和國外資企業法》), and become the legal foundation for foreign investment in the PRC.

According to the Foreign Investment Law, foreign investment refers to any investment activity directly or indirectly carried out by foreign natural persons, enterprises or other organizations, including the following circumstances: (i) a foreign investor establishes a foreign-funded enterprise within the territory of China, either alone or together with any other investor; (ii) a foreign investor acquires shares, equities, property shares or any other similar rights and interests of an enterprise within the territory of China; (iii) a foreign investor invests in any new project within the territory of China, either alone or together with any other investor; and (iv) a foreign investor invests in any other way stipulated under laws, administrative regulations or provisions of the State Council. And a foreign-funded enterprise refers to an enterprise incorporated under Chinese laws within the territory of China and with all or part of its investment from a foreign investor.

The Foreign Investment Law further prescribes that the State adopts the management system of pre-establishment national treatment and negative list for foreign investment. 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. The negative list will be released by or upon approval by the State Council. If more preferential treatment for access of foreign investors is provided under international treaties or agreements governing foreign investment that the PRC concludes or accedes, such provisions may apply.

Under the Catalogue of Industries for Guiding Foreign Investment (《外商投資產業指導目錄》) (the “**Catalogue**”) promulgated by MOFCOM and NDRC on March 10, 2015 and became effective on April 10, 2015, the construction of large-scale theme park falls within the category of industries in which foreign investment is restricted; the construction of golf courses and villas falls within the category of industries in which foreign investment is prohibited; and other real estate development falls within the category of industries in which foreign investment is permitted. Pursuant to the amended Catalogue (the “**Catalogue (Edition 2017)**”) promulgated by MOFCOM and NDRC on June 28, 2017 and became effective on July 28, 2017 and the Special Management Measures (Negative List) for the Access of Foreign Investment (Edition 2018) (《外商投資准入特別管理措施(負面清單)(2018年版)》) (the “**Negative List (Edition 2018)**”) promulgated by the NDRC and the MOFCOM on June 28, 2018 and came into effect on July 28, 2018, real estate development does not fall within the Negative List (Edition 2018) and the restrictive measures for construction of large-scale theme park, golf courses and villas are equally applicable to domestic and foreign investment. On June 30, 2019, MOFCOM and NDRC promulgated the Catalogue of Industries for Encouraging Foreign Investment (Edition 2019) (《鼓勵外商投資產業目錄》) and the Special Management Measures (Negative List) for the Access of Foreign Investment (Edition 2019) (《外商投資准入特別管理措施(負面清單)(2019年版)》) (the “**Negative List (Edition 2019)**”), both of which became effective on July 30, 2019 and superseded the Catalogue (Edition 2017) and the Negative List (Edition 2018), while the policy for the real estate development remains the same. The Negative List (Edition 2019) was superseded by the Special Measures (Negative List) for the Access of Foreign Investment (Edition 2020) (《外商投資准入特別管理措施(負面清單)(2020年版)》) (the “**Negative List (Edition 2020)**”) promulgated by NDRC and MOFCOM on June 23, 2020 and became effective on July 23, 2020. The Negative List (Edition 2020) has no further implication in respect of the real estate development policy.

On July 11, 2006, the Ministry of Construction, the MOFCOM, the NDRC, the PBOC, the SAIC and the SAFE jointly issued the Opinions on Regulating the Access and Administration of Foreign Investment in the Real Estate Market (《關於規範房地產市場外資准入和管理的意見》), which provides that: (i) foreign organizations and individuals who have established foreign-invested enterprises are allowed to invest in and purchase non-owner-occupied real estate in China; while branches of foreign organizations established in China are eligible to purchase commercial houses which match their actual needs for self-use under their names; (ii) the registered capital of foreign-invested real estate enterprises with the total investment amount exceeding or equal to US\$10 million shall be no less than 50% of their total investment; (iii) foreign-invested real estate enterprises can apply for renewing the official foreign-invested enterprise approval certificate and business license with an operation term of one year only after they have paid back all the land premium and obtained the land administration department for the state-owned land use rights certificate; (iv) with respect to equity transfer and project transfer of a foreign-invested real estate enterprise and the merger and acquisition of a domestic real estate enterprise by an overseas investor, the department in charge of commerce and other departments shall conduct examination and approval in strict compliance with the provisions of the relevant laws, regulations, and policies. The investor concerned shall submit a letter of guarantee on its promise to perform the Contract on the Transfer of State-owned Land Use Right (國有土地使用權出讓合同), the License for the Planning of Construction Land (建設用地規劃許可證), the License for the Planning of Construction Projects (建設工程規劃許可證) etc., and shall submit the Certificate for the Use of State-owned Land (國有土地使用證), the documents certifying that the change of registration has been filed with the relevant department in charge of construction (real estate) for record, and the certification materials issued by the relevant taxation authority on the tax payment in relevance; (v) foreign investors shall pay off all considerations for the transfer in a lump sum with their own funds if they acquire Chinese real estate enterprises or any equity interest held by Chinese parties in Sino-foreign Equity Joint Venture engaged in real estate industry.

On August 19, 2015, the Ministry of Housing and Urban-Rural Development of the People's Republic of China (the "MOHURD"), MOFCOM, NDRC, PBOC, SAIC and SAFE jointly promulgated the Circular on Amending the Policies Concerning Access by 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 amended certain policies on foreign-invested real estate enterprises and property purchased by overseas organizations and individuals as stated in the Opinions on Regulating the Access and Administration of Foreign Investment in the Real Estate Market (《關於規範房地產市場外資准入和管理的意見》) as follows, the requirements for the registered capital of foreign-invested real estate enterprises shall follow the provisions in the Provisional Regulations of the State Administration for Industry and Commerce on the Proportion of Registered Capital to Total Amount of Investment of a Sino-foreign Equity Joint Ventures (《國家工商行政管理局關於中外合資經營企業註冊資本與投資總額比例的暫行規定》) promulgated and became effective on February 17, 1987; the requirement on full payment of registered capital of the foreign-invested real estate enterprises before applying for domestic or foreign loans or foreign exchange loan settlement is canceled.

QUALIFICATIONS OF REAL ESTATE DEVELOPERS

In accordance with the Development Regulations, a real estate development enterprise shall, within 30 days starting from the date of receipt of the business license, file the relevant documents for record to the real estate development authorities located at its place of registration. The real estate development authorities shall, on the basis of the assets, specialized technical personnel and business achievements, verify the class of qualification of the real estate development enterprise in question. The real estate development enterprise shall undertake real estate development projects in compliance with the verified class of qualification. Relevant detailed rules shall be formulated by the department of the construction administrative of the State Council.

Pursuant to the Regulations on Administration of Qualification of Real Estate Development Enterprises (《房地產開發企業資質管理規定》) (the "Circular 77") promulgated on November 16, 1993 and amended on March 29, 2000 and May 4, 2015, an enterprises engaged in real estate development shall apply for the approval in accordance with the provisions of application for the enterprise qualification classification. Enterprises that fail to obtain certificates of real estate investments shall not engage in the real estate development business. Enterprises engaged in real estate development are classified into four qualification classes: Class I, Class II, Class III and Class IV on the basis of their financial conditions, experience in real estate development business, construction quality, the professional personnel and quality control system etc.

Pursuant to the Circular 77, enterprises of various qualification classes shall engage in real estate development and management projects within the approved scope of business and shall not undertake any tasks which fall outside the approved scope of their own qualification classes.

LAND USE RIGHTS FOR REAL ESTATE DEVELOPMENT

All land in the PRC is either state-owned or collectively-owned, depending on the location of the land. Where land in rural areas and suburban areas are legally owned by the State, the State holds ownership rights. The State has the right to take its ownership of land or the land use rights in accordance with laws for the reasons of public interest protection. In that event, compensation shall be paid by the State.

Although all land in the PRC is either state-owned or collectively-owned, individuals and entities may obtain land use rights and hold such land use rights for development purposes. Individuals and entities may acquire land use rights in different ways, the two most important ways are obtaining land grants from local land authorities and land which is transferred from land users who have already obtained land use rights.

Land Grants

On April 12, 1988, the National People's Congress (the "NPC") passed an amendment to the Constitution of the PRC (《中華人民共和國憲法》). The amendment allowed the transfer of land use rights for value to prepare for reforms of the legal regime governing the use of land and transfer of land use rights. On December 29, 1988, the Standing Committee of the NPC also amended the Land Administration Law of the People's Republic of China (《中華人民共和國土地管理法》) to permit the transfer of land use rights for value.

On May 19, 1990, the State Council enacted the Provisional Regulations of the People's Republic of China 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, formalized the process of the grant and transfer of land use rights for value.

Upon paying in full the land premium pursuant to the terms of the contract, a land-grantee may apply to the relevant land bureau for the land use rights certificate. In accordance with the Property Rights Law of the People's Republic of China (《中華人民共和國物權法》), which was issued on March 16, 2007 and became effective on October 1, 2007, the term of land use rights for land of residential use will automatically be renewed upon expiry. The renewal of the term of land use rights for other uses shall be dealt with according to the then-current relevant laws. In addition, if the State requests for the possession of land for public interest during the term of the relevant land use rights, compensation shall be paid to the owners of residential properties and other real estate on the land and the relevant land premium shall be refunded to them by the State.

Land Grant Methods

Pursuant to PRC laws and the stipulations of the State Council, except for land use rights which may be obtained through allocation, land use rights for property development are obtained through the grant from government. There are two ways 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).

As of July 1, 2002, the grant of land use rights by way of competitive processes is governed by the Regulations on the Grant of Use Right of State-Owned Land by Bidding, Auction or Listing (《招標拍賣掛牌出讓國有土地使用權規定》), issued by the Ministry of Land and Resources of the PRC on May 9, 2002 and revised as of September 28, 2007 with the name of Regulations on Granting State-Owned Construction Land Use Right through Bidding, Auction and Listing (《招標拍賣掛牌出讓國有建設用地使用權規定》) (the "**Land Grant Regulations**") which became effective on November 1, 2007. The Land Grant Regulations specifically provide that land to be used for industrial, commercial, tourism, entertainment or commodity residential purposes, or where there are two or more intended users for the certain piece of land, shall be granted by way of competitive processes. A number of measures are provided by the Land Grant Regulations to ensure such grant of land use rights for commercial purposes is conducted openly and fairly.

On May 11, 2011, the Ministry of Land and Resources promulgated the Opinions on Upholding and Improving the System for the Transfer of Land by Bidding, Auction and Listing (《關於堅持和完善土地招標拍賣掛牌出讓制度的意見》), which provides stipulations to improve policies on the supply of land through public bidding, auction and listing, and strengthen the active role of land transfer policy in the control of the real estate market.

On June 11, 2003, the Ministry of Land and Resources promulgated the Regulations on Grant of State-Owned Land Use Rights by Agreement (《協議出讓國有土地使用權規定》) which became effective on August 1, 2003, to regulate granting of land use rights by agreement when there is only one land use applicant and the designated uses of which are other than for commercial purposes as described above.

According to the Circular on the Distribution of the Catalog for Restricted Land Use Projects (2012 Edition) and the Catalog for Prohibited Land Use Projects (2012 Edition) (《關於發佈實施限制用地項目目錄(2012年本)和禁止用地項目目錄(2012年本)的通知》) promulgated by the Ministry of Land and Resources and NDRC in May 2012, the granted area of the residential housing projects shall not exceed (i) 7 hectares for small cities and towns, (ii) 14 hectares for medium-sized cities, or (iii) and 20 hectares for large cities and plot ratio which shall not be lower than 1.0.

Land Transfer 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 with such land users.

For real estate development projects, the Urban Real Estate Law requires that at least 25% of the total amount of investment or development must have been carried out before an assignment can take place. All rights and obligations of the current holder under a land grant contract will be transferred contemporaneously to the assignee. Relevant local governments may acquire the land use rights from a land user in the event of a readjustment of the use of land for renovating the old urban area according to city planning. The land user will then be compensated for the loss of land use rights.

DEVELOPMENT OF REAL ESTATE PROJECTS

Commencement of Real Estate Development Projects

According to the Urban Real Estate Law, those who have obtained the right of land use by the way of grant for real estate development must develop the land in accordance with the land use and within the construction period as prescribed in the grant contract. When the land user fails to commence development after one year since the date of starting the development as prescribed by the grant contract, an idle land fee no more than 20% of the land grant premium may be collected and when the land user fails to commence development after two years, the right to use the land may be confiscated without any compensation, except where the delays are caused *by force majeure*, the activities of government, or the delay in the necessary preliminary work for starting the development.

Pursuant to the Measures on Disposal of Idle Land (《閒置土地處置辦法》), which was promulgated on April 28, 1999 by the Ministry of Land and Resources and revised on June 1, 2012, land can be defined as idle land under any of the following circumstances:

- development and construction of the state-owned idle land is not commenced after one year of the prescribed time prescribed in the land use right grant contract or allocation decision; or
- the development and construction of the state-owned idle land has been commenced but the area of the development and construction that has been commenced is less than one-third of the total area to be developed and constructed or the invested amount is less than 25% of the total amount of investment, and the development and construction have been continuously suspended for one year or more without an approval.

Where the delay of commencement of development is caused by the government's behavior or due to the force majeure of natural disasters, the land administrative authorities shall discuss with the holder of state-owned construction land use rights and select the methods for disposal in accordance with the Measures on Disposal of Idle Land.

Planning of Real Estate Projects

Under the Regulations on Planning Administration regarding Granting and Transfer of State-Owned Land Use Right in Urban Area (《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 December 4, 1992 and amended on January 26, 2011, a real estate developer shall apply for a License for the Planning of Construction Land (建設用地規劃許可證) from the municipal planning authority. After obtaining the License for the Planning of Construction Land, the real estate developer shall conduct all necessary planning and design works in accordance with relevant planning and design requirements. A planning and design proposal in respect of the real estate project shall be submitted to the municipal planning authority in compliance with the requirements and procedures under the Urban and Rural Planning Law of the People's Republic of China (《中華人民共和國城鄉規劃法》), which was issued on October 28, 2007 and amended on April 24, 2015 and April 23, 2019, and a License for the Planning of Construction Projects (建設工程規畫許可證) from the municipal planning authority should be obtained by the real estate developer.

Construction Work Commencement License

The real estate developer shall apply for a Construction Work Commencement License (建築工程施工許可證) from the relevant construction authority in accordance with the Regulations on Administration Regarding Permission for Commencement of Construction Works (《建築工程施工許可管理辦法》) promulgated by the Ministry of Construction on October 15, 1999 and amended on July 4, 2001 and June 25, 2014 and latest amended on September 28, 2018 by the MOHURD.

Acceptance and Examination upon Completion of Real Estate Projects

Pursuant to the Development Regulations, the Administrative Measures for the Registration 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 April 4, 2000 and amended on October 19, 2009 and the Provisions on 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規定》) promulgated and implemented by the MOHURD on December 2, 2013, upon the completion of a real estate development project, the real estate development enterprise shall submit an application to the competent department of real estate development of local government at or above the county level, where the project is located, for examination upon completion of building and for filing purposes; and to obtain the Filing Form for Acceptance and Examination upon Completion of Construction Project. A real estate project shall not be delivered before passing the acceptance examination.

INSURANCE OF REAL ESTATE PROJECTS

There are no nationwide mandatory requirements in the PRC laws, regulations and government rules requiring a real estate developer to maintain insurance for its real estate projects. According to the Construction Law of the People's Republic of China (《中華人民共和國建築法》) promulgated by the Standing Committee of the NPC on November 1, 1997 and became effective on March 1, 1998 and amended on April 22, 2011 and April 23, 2019, construction enterprises shall maintain work injury insurance and pay the insurance premium, while enterprises are encouraged to take up accident liability insurance for employees engaged in dangerous operations and pay the insurance premium. In the Opinions of the Ministry of Opinions on Strengthening the Insurance of Accidental Injury in the

Construction Work (《建設部關於加強建築意外傷害保險工作的指導意見》) promulgated by the Ministry of Construction on May 23, 2003, the Ministry of Construction further emphasized the importance of the insurance of accidental injury in the construction work and put forward the detailed opinions of guidance.

MARKETING AND PROMOTION OF REAL ESTATE PROJECTS

Real Estate Advertisements

Pursuant to the Advertising Law of the People's Republic of China (《中華人民共和國廣告法》), promulgated by the Standing Committee of the NPC on October 27, 1994 and amended on April 24, 2015 and October 26, 2018 and the Provisions on Distribution of Real Estate Advertisements (《房地產廣告發佈規定》) promulgated by the State Administration for Industry and Commerce on December 24, 2015, real estate advertisements and information of housing sources shall be authentic. The area shall be stated as floor area or indoor floor space, and shall not contain any of the following contents: commitment on appreciation or investment returns; using the time required to travel from the project to a specific location to indicate the location of the project; violation of State provisions on pricing administration; or using transport, commercial, cultural and education facilities and other municipal conditions, which are the planning or under construction, as misleading promotion. For publishing of false advertisements to deceive, mislead consumers, and caused harm to the legitimate rights and interests of consumers who purchase the goods or accept the services, the advertiser shall bear civil liability pursuant to the law.

In addition, an advertisement for pre-sale or sale of real estate must state the following items: name of the developer; the exact portion of the intermediary organization acting as an agent for the transactions; the name of such organization; and the pre-sale or sale permit number. And where the advertisement merely states the name of the real estate project, the aforesaid matters may be omitted.

Furthermore, the following real estate shall not be advertised: development on land for which State-owned land use rights have not been obtained pursuant to the law; development on collectively-owned land which has not been requisitioned by the State; restriction of real estate rights based on a ruling, decision on seizure or any other form of imposition by the judicial authorities or administrative authorities pursuant to the law; pre-sale of real estate without a pre-sale permit for the said project; dispute over ownership; development which violates the relevant provisions of the State; non-compliance with project quality standards, and failure to pass acceptance inspection; or any other circumstances prohibited by laws and administrative regulations.

REAL ESTATE TRANSACTIONS

Sale of Commodity Properties

Under the Measures for Administration of the Sales of Commodity Properties (《商品房銷售管理辦法》) (the “**Sale Measures**”) promulgated by the Ministry of Construction on April 4, 2001 and became effective on June 1, 2001, the sale of commodity properties includes both sales prior to and after the completion of the properties.

Pre-sale of Commodity Properties

Any pre-sale of commodity properties must be conducted in accordance with the Measures for Administration of Pre-sale of Commodity Properties (《城市商品房預售管理辦法》) promulgated by the Ministry of Construction on November 15, 1994, as amended on August 15, 2001 and July 20, 2004 (the “**Pre-sales Measures**”). The Pre-sale Measures provide that any pre-sale of commodity properties is subject to specified procedures. If a real estate developer intends to sell commodity properties in advance, it shall apply to the real estate administrative authority to obtain a pre-sale license. According to the Pre-sales Measures, the competent regulatory authority may impose a fine that equals three times

of illegal gains but less than RMB30,000 per project if a property developer has non-compliances in relation to pre-sale proceeds. The maximum penalty of RMB30,000 refers to the maximum penalty a project may be subject to, regardless whether the project is involved in one or more types of non-compliances in relation to pre-sale proceeds.

Pursuant to the Urban Real Estate Law and the Pre-sale Measures, the proceeds from the pre-sale of commodity properties shall be used to fund the development and construction of the corresponding projects.

Furthermore, under the Circular on Issues Concerning Further Strengthening the Supervision and Administration of the Real Estate Market and Improving the Pre-sale System of Commodity Properties (《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》) issued by the MOHURD on April 13, 2010, all proceeds from the pre-sale of commodity properties shall be supervised and managed by relevant authorities so as to ensure that the proceeds to be used for the development and construction of the corresponding projects.

Set out below are the implementation rules promulgated by the local real estate administrative authorities on the provincial or city level.

Sales After Completion of Commodity Properties

Under the Sale Measures, commodity properties may be put to post-completion sale only when the following conditions have been satisfied: (i) 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 real estate development; (ii) the enterprise has obtained land use rights certificates or other approval documents of land use; (iii) the enterprise has obtained the Construction Project Planning License and the Construction Work Commencement License; (iv) the commodity properties have been completed and been inspected and accepted as qualified; (v) the relocation of the original residents has been well settled; (vi) the supplementary essential facilities for supplying water, electricity, heating, gas and communication 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 have been specified; and (vii) the property management proposal has been completed.

The Provisions on Sales of Commodity Properties at Clearly Marked Price (《商品房銷售明碼標價規定》) was promulgated by the NDRC on March 16, 2011 and became effective on May 1, 2011. According to the provisions, any real estate developer or real estate agency is required to mark the selling price explicitly and clearly for both newly-built and second-hand commercial properties.

On February 26, 2013, the General Office of the State Council issued the Notice on Continuing the Regulation of Real Estate Market (《關於繼續做好房地產市場調控工作的通知》) which is intended to cool down the property market and emphasize the government's determination to strictly enforce regulatory and macro-economic measures, which include, among other things, (i) restrictions on purchasing the real estate, (ii) increased down payment requirement for second residential properties purchase, (iii) suspending mortgage financing for second or more residential-properties purchase and (iv) 20% individual income tax rate applied to the gain from the sales of properties.

Mortgage of Properties

The mortgage of real estate in the PRC is mainly governed by the Property Rights Law of the People's Republic of China (《中華人民共和國物權法》), the Guarantee Law of the PRC (《中華人民共和國擔保法》), and the Measures for Administration of Mortgages of Urban Real Estate (《城市房地產抵押管理辦法》). According to these laws and regulations, land use rights, the buildings and other real fixtures may be mortgaged. When a mortgage is created on the ownership of a building legally obtained, a mortgage shall be simultaneously created on the use right of the land on which the building is located. The mortgagor and the mortgagee shall enter into a mortgage contract in writing. A system has been

adopted to register the mortgages of real estate. After a real estate mortgage contract has been signed, the contract parties shall register the mortgage with the real estate administration authority at the location where the real estate is situated. If a mortgage is created on the real estate in respect of which a property ownership certificate has been obtained legally, the registration authority shall make an entry under the “third party rights” item on the original property ownership certificate and issue a Certificate of Third Party Rights to a Building (房屋他項權證) to the mortgagee.

Lease of Properties

Both the Urban Land Regulations and the Urban Real Estate Law permit the leasing of granted land use rights and of the buildings or houses erected on the land. On December 1, 2010, MOHURD promulgated the Administrative Measures for Commodity House Leasing (《商品房屋租賃管理辦法》) (the “**New Lease Measures**”), which became effective on February 1, 2011, and replaces the Administrative Measures for Urban House Leasing (《城市房屋租賃管理辦法》). Pursuant to the New Lease Measures, parties there to shall register and file with the local property administration authority within thirty days after entering into the lease contract. Non-compliance with such registration and filing requirements shall be subject to fines up to RMB1,000 (individuals) and RMB1,000 to 10,000 (enterprises) provided that they fail to rectify within required time limits. According to the Urban Real Estate Law, the land proceeds included in the rental income derived from any building situated on allocated land where the land use rights have been obtained through allocation, shall be turned over to the State.

Under the Contract Law of the People’s Republic of China (《中華人民共和國合同法》), promulgated by the NPC on March 15, 1999, and was amended on June 29, 2007 and December 28, 2012, the term of a leasing contract shall not exceed 20 years.

REAL ESTATE REGISTRATION

The Interim Regulations on Real Estate Registration (《不動產登記暫行條例》), promulgated by the State Council on November 24, 2014 and became effective on March 1, 2015 and amended on March 24, 2019, and the Implementing Rules of the Interim Regulations on Real Estate Registration (《不動產登記暫行條例實施細則》) promulgated by the Ministry of Land and Resources on January 1, 2016 and amended on July 24, 2019, provide that, among other things, the State implements a uniform real estate registration system and the registration of real estate shall be strictly managed and shall be carried out in a stable and continuous manner that provides convenience for the people.

REAL ESTATE FINANCING

Loans to Real Estate Development Enterprises

On August 30, 2004, the China Banking and Insurance Regulatory Commission (the “**CBIRC**”) issued a Guideline for Commercial Banks on Risks of Real Estate Loans (《商業銀行房地產貸款風險管理指引》). According to this guideline, no loans shall be granted to projects which have not obtained requisite land use rights certificates, construction land planning licenses, construction work planning permits and construction work commencement permits. The guideline also stipulates that bank loan shall only be extended to real estate developers who applied for loans and contributed not less than 35% of the total investment of the property development project by its own capital. In addition, the guideline provides that commercial banks shall set up strict approval systems for granting loans.

On July 29, 2008, the PBOC and the CBIRC issued the Notice on Financially Promoting the Land Saving and Efficient Use (《關於金融促進節約集約用地的通知》) which, among other things,

- restricts granting loans to real estate developers for the purpose of paying land grant premiums;
- provides that, for secured loans for land reserve, legal land use rights certificates shall be obtained;
- the loan on mortgage shall not exceed 70% of the appraised value of the collateral, and the term of loan shall be no more than two years in principle;
- provides that for the real estate developer who (i) delays the commencement of development date specified in the land use right grant agreement for more than one year, (ii) has not completed one-third of the intended project, or (iii) has not invested one-fourth of the intended total project investment, loans shall be granted or extended prudently;
- prohibits granting loans to the real estate developer whose land has been idle for more than two years; and
- prohibits taking idle land as a security for loans.

On September 29, 2010, the PBOC and the CBIRC jointly issued the Notice on Relevant Issues Regarding the Improvement of Differential Mortgage Loan Policies (《關於完善差別化住房信貸政策有關問題的通知》), which restricts the grant of new project bank loans or extension of credit facilities for all property companies with non-compliance records regarding, among other things, holding idle land, changing land use and nature of the land, postponing construction commencement or completion, or hoarding properties.

Since 2020, there has been news mentioning that the PBOC plans to control the scale of interest-bearing debts of property developers in China by applying a newly proposed standard in the assessment of the debt burden of property developers, which sets out limits for three financial ratios of the property developers.

Since 2021, according to the Circular on Establishing a Centralized Management System for Real Estate Loans of Banking Financial Institutions (《關於建立銀行業金融機構房地產貸款集中度管理制度的通知》) which was promulgated by the PBOC and the CBIRC and came into effect on January 1, 2021, the proportion of the balance of real estate loans of Chinese-funded banking financial institutions shall satisfy the administrative requirements not to be higher than the corresponding upper limits specified by the PBOC and the CBIRC.

Trust and Asset Management Financing

On March 1, 2007, The Measures for Administration of Trust Companies (《信託公司管理辦法》), which was promulgated by the CBIRC on January 23, 2007, came into effect. For the purposes of these measures, “Trust Company” shall mean any financial institution established pursuant to the PRC Company Law and the Measures for Administration of Trust Companies, and that primarily engages in trust activities.

From October 2008 to November 2010, the CBIRC issued several regulatory notices in relation to real estate activities conducted by Trust Companies, including a Circular on Relevant Matters Regarding Strengthening the Supervision of the Real Estate and Securities Businesses of Trust Companies (《關於加強信託公司房地產、證券業務監管有關問題的通知》), promulgated by the CBIRC on October 28, 2008 and became effective on the same date, Notice of CBIRC on Relevant Issues Regarding Supporting the Innovative Development of Trust Companies 《中國銀監會關於支持信託公司創新發展有關問題的通

知》, promulgated by the CBIRC on March 25, 2009 and became effective on the same date. Notice of General Office of CBIRC on Relevant Issues Regarding Strengthening the Supervision of the Real Estate Businesses of Trust Companies 《中國銀監會辦公廳關於加強信託公司房地產信託業務監管有關問題的通知》, promulgated on February 11, 2010 and became effective on the same date, pursuant to which Trust Companies are restricted from providing trust loans, in form or in nature, to property projects that have incomplete “Four Certificates” (i.e. the Certificate of Land Use Rights, Planning License for Construction-land-use, Planning License for Construction Works and Construction License) and the property projects (except for affordable housing) of which less than 35% of the total investment is funded by the property developers’ own capital (according to the Notice of the State Council on Adjusting and Improving the Capital System for Fixed Assets Investment Projects (《國務院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 and became effective on September 9, 2015, the 35% requirement was changed to 20% for indemnificatory housing and ordinary commodity apartments, and to 25% for other property projects). If a real estate developer intends to apply for the loan from a trust company, the real estate developer itself or its controlling shareholder shall obtain a Real Estate Development Qualification Certificate whose classification is no less than Class II.

On April 27, 2018, the Opinions on Regulating Asset Management Business of Financial Institutions (《關於規範金融機構資產管理業務的指導意見》) jointly issued by the PBOC, CBIRC, CSRC and SAFE, require that, financial institutions including Trust Companies, banks, fund management companies and financial asset management companies should comply with applicable regulations regarding the types of asset management business and issuance of asset management products. In addition, such financial institutions should adhere to the fundamental objective of serving the real economy, prevent funds from leaving the real economy for the virtual economy to circulate within the financial system, prevent excessively complicated products from intensifying the transmission of the risks among industries, markets, and regions, and develop unified standards and rules directed in priority at problems in asset management business, such as multi-layered nesting, unclear leverage, serious arbitrage, and frequent speculation.

On May 8, 2019, the CBIRC issued the Circular on Carrying out the Work of Consolidating the Achievements on Rectification of Chaos and Promoting Compliance Construction (《中國銀保監會關於開展“鞏固治亂像成果促進合規建設”工作的通知》), which emphasizes that trust company shall not directly provide financing to real estate development projects which have incomplete “Four Certificates”, whose developers or their controlling shareholders are unqualified and whose capital funds are not fully paid, or provide financing in disguised form through equity investment plus shareholder borrowing, equity investment plus inferior debt subscription, account receivable, specific asset income rights, etc.; provide financing directly or in disguised form for the payment of land-transferring fees by real estate enterprises, and issuance of working capital loans to real estate enterprises directly or in disguised form; provide financing to local governments; require or accept all kinds of guarantees provided by local governments or their affiliated departments; directly or indirectly invest on-and off-balance sheet funds to the “Two-high and One excess” (i.e. high energy consumption, high pollution and excess capacity) industries or other restrictive or prohibited fields.

Housing Loans to Individual Buyers

On April 17, 2010, the State Council issued the Notice on Strictly Restraining the Excessive Growth of the Property Prices in Some Cities (《關於堅決遏制部分城市房價過快上漲的通知》), pursuant to which, a stricter differential housing credit policy shall be enforced. It provides that, among other things, (i) for a family member who is a first-time house buyer (including the debtors, their spouses and their juvenile children, similarly hereinafter) of the apartment with a GFA more than 90 sq.m., a minimum 30% down payment shall be paid; (ii) for a family who applies loans for its second house, the down payment requirement is raised to at least 50% from 30% and also provides that the applicable interest rate must be at least 1.1 times of that of the corresponding benchmark interest rate over the same corresponding period published by the PBOC; and (iii) for those who purchase three or more houses, even higher requirements on both down payments and interest rates shall be levied. In

addition, the banks may suspend housing loans to third or more home buyers in places where house prices rise excessively, the prices are rapidly high and housing supply is insufficient. The Notice on Certain Matters Concerning Individual Housing Loan Policies (《關於個人住房貸款政策有關問題的通知》) promulgated by PBOC, MOHURD and CBIRC on March 30, 2015 and became effective on the same date provides that where a household, which has already owned a house and has not paid off the relevant housing loan, applies for another commercial personal housing loan to purchase another ordinary housing property for the purpose of improving living conditions, the minimum down payment is adjusted to 40% of the property price. The actual down payment ratio and loan interest rate should be determined by the banking financial institution concerned based on the borrower's credit record and financial condition. For working households that have contributed to the housing provident fund, when they use the housing provident fund loans to purchase an ordinary residential house as their first house, the minimum down payment shall be 20% of the house price; for working households that have contributed to the housing provident fund and that have already owned a home and have paid off the corresponding home loans, when they apply for the housing provident fund loans for the purchase of an ordinary residential house as their second property to improve their housing conditions, the minimum down payment shall be 30% of the property price.

The Notice of the People's Bank of China and the China Banking Regulatory Commission on Further Improving Differentiated Housing Credit Lending Policies (《關於進一步完善差別化住房信貸政策有關問題的通知》) issued by PBOC and CBIRC on September 24, 2015, provides that in cities that control measures on property purchase are not imposed, where a household applies for the commercial personal housing loan to purchase his/her first ordinary housing property, the minimum down payment shall be adjusted to 25% of the house price. The minimum down payment ratio for the commercial personal housing loan of each city will be independently determined by each provincial pricing self-disciplinary mechanism of market interest based on the actual situation of each city under the guidance of PBOC and the CBIRC local office.

The Notice on Adjustments in Respect of Certain Matters Concerning Individual Housing Loan Policies (《關於調整個人住房貸款政策有關問題的通知》), promulgated by PBOC and CBIRC on February 1, 2016, provides that in the cities that control measures on property purchase are not imposed, where a household applies for the commercial personal housing loan to purchase its first ordinary housing property, the minimum down payment, in principle, shall be 25% of the property price and each city could adjust such ratio downwards by 5%; and where a household which has already owned a house and has not paid off the relevant housing loan, applies for another commercial personal housing loan to purchase another ordinary housing property for the purpose of improving living conditions, the minimum down payment is adjusted to 30% of the property price. In the cities that control measures on property purchase are imposed, the individual housing loan policies shall be adopted in accordance with the original regulations and the actual down payment ratio and loan interest rate shall be determined reasonably by the banking financial institutions based on the requirements of minimum down payment ratio determined by provincial pricing self-disciplinary mechanism of market interest, the loan-issuance policies and the risk control for commercial personal housing loan adopted by such banking financial institutions and other factors such as the borrower's credit record and capacity of repayment.

ENVIRONMENTAL PROTECTION

The laws and regulations governing the environmental requirements for real estate development in the PRC include the Environmental Protection Law of the People's Republic of China (《中華人民共和國環境保護法》), the Prevention and Control of Noise Pollution Law of the People's Republic of China (《中華人民共和國環境噪聲污染防治法》), the Environmental Impact Assessment Law of the People's Republic of China (《中華人民共和國環境影響評價法》), the Administrative Regulations on Environmental Protection for Development Projects (《建設項目環境保護管理條例》) and the Administrative Regulations on Environmental Protection for Acceptance Examination Upon Completion of Buildings (《建設項目竣工環境保護驗收管理辦法》). 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 shall 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 and the construction unit will also inspect the property to ensure compliance with the applicable environmental standards and regulations before the property can be delivered to the purchasers.

CIVIL AIR DEFENSE PROPERTY

Pursuant to the PRC Law on National Defense (《中華人民共和國國防法》) promulgated by the NPC on March 14, 1997, as amended on August 27, 2009, national defense assets are owned by the state. Pursuant to the PRC Law on Civil Air Defense (《中華人民共和國人民防空法》) (the “**Civil Air Defense Law**”), promulgated by the NPC on October 29, 1996, as amended on August 27, 2009, civil air defense is an integral part of national defense. The Civil Air Defense Law encourages the public to invest in the construction of civil air defense property and investors in civil air defense are permitted to use, manage the civil air defense property in time of peace and profit therefrom. However, such use must not impair their functions as air defense property. The design, construction and quality of the civil air defense properties must conform to the protection and quality standards established by the State. On November 1, 2001, the National Civil Air Defense Office issued the Administrative Measures for Developing and Using the Civil Air Defense Property at Ordinary Times (《人民防空工程平時開發利用管理辦法》) and the Administrative Measures for Maintaining the Civil Air Defense Property (《人民防空工程維護管理辦法》), which specify how to use, manage and maintain the civil air defense property.

MEASURES ON STABILIZING HOUSING PRICES

The Notice on Adjusting the Business Tax Policies Concerning Transfer of Individual Housing (《關於調整個人住房轉讓營業稅政策的通知》) promulgated by the Ministry of Finance of the People’s Republic of China (the “**MOF**”) and the State Taxation Administration (the “**SAT**”) on March 30, 2015 and became effective on March 31, 2015 provides that where an individual sells a property purchased within two years, business tax shall be levied on the full amount of the sales income; where an individual sells a non-ordinary property that was purchased more than two years ago, business tax shall be levied on the difference between the sales income and the original purchase price of the house; the sale of an ordinary residential property purchased by an individual more than two years ago is not subject to such business tax.

The Notice of the Ministry of Finance, the State Administration of Taxation and the Ministry of Housing and Urban-Rural Development on Adjusting the Preferential Policies on Deed Tax and Business Tax during Real Estate Transactions (《財政部、國家稅務總局、住房城鄉建設部關於調整房地產交易環節契稅、營業稅優惠政策的通知》) promulgated on February 17, 2016 and became effective on February 22, 2016 provides that: (i) in the case of an one-and-only household residential property purchased by individuals (family members shall include the buyer, his/her spouse and underage children, same hereinafter), where the area is 90 sq.m, or below, deed tax shall be levied at the reduced rate of 1%; where the area exceeds 90 sq.m., deed tax shall be levied at the reduced rate of 1.5%; and (ii) the purchase of a second house by an individual for making house improvements for his/her family is subject to deed tax at a reduced rate of 1% if the area of the house is 90 sq.m, or less, or 2% if the area is over 90 sq.m. Meanwhile, the Notice specifies that the sale of a house that has been purchased by an individual for less than two years is subject to business tax at a full rate; and the sale of a house that has been purchased by an individual for two years or more is exempted from business tax. In addition, the Notice stresses that certain preferential business tax policies shall not apply to Beijing Municipality, Shanghai Municipality, Guangzhou City and Shenzhen City for the time being.

Pursuant to Notice on Further Standardizing the Business Behaviors of the Real Estate Development Enterprises and Safeguarding the Order of the Real Estate Market (《關於進一步規範房地產開發企業經營行為維護房地產市場秩序的通知》) promulgated and implemented on October 10, 2016 by Ministry of Housing and Urban-Rural Development, competent real estate departments at all levels shall investigate and penalize illegal business activities of real estate developers, which include: (i)

conducting malicious speculation and pushing up prices by fabricating or transmitting information on rise in price; (ii) collecting deposits, booking fees and other fees from consumers or collecting them in disguised forms by means of subscription, booking, issuing a row number and card, etc. to push up prices without meeting the requirements for selling commercial houses. Real estate developers conducting illegal business activities may be put on the list of real estate developers in serious violation of law in the light of circumstances.

In accordance with Circular of the Ministry of Housing and Urban-Rural Development and the Ministry of Land and Resources on Tightening the Management and Control over Intermediate Residential Properties 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》), promulgated and implemented on April 1, 2017 by Ministry of Land and the MOHURD, in cities featuring obvious contradiction between the supply of and demand for housing or under pressure due to increasing housing prices and more housing land, in particular the land for ordinary commercial houses, shall be supplied to a reasonable extent, and the housing land supply shall be reduced or even suspended in cities requiring a lot of destocking of real estate. All the local authorities shall build a land purchase money inspection system to ensure that the real estate developers use their own legal funds to purchase land.

Pursuant to the Notice of MOHURD on Further Improving the Management and Control over the Real Estate Market (《住房城鄉建設部關於進一步做好房地產市場調控工作有關問題的通知》) promulgated and implemented on May 19, 2018 by the MOHURD, all regions shall take practical measures to achieve targets of stabilizing housing prices, controlling rents, reducing leverage, preventing risks, adjusting structure, and stabilizing expectations, support rigid housing demands, and resolutely curb property speculation. It is necessary to improve the supply mode of commercial houses land and establish a linkage mechanism for land price and house price so as to prevent land prices from pushing up house prices. In key cities, the proportion of residential land should be enhanced and it is suggested that residential land represent at least 25% of land set aside for urban development.

Pursuant to Notice of Launching Special Actions in Some Cities to Fight Activities Undermining People's Interests and Disrupting the Property Market (《關於在部分城市先行開展打擊侵害群眾利益違法違規行為治理房地產市場亂象專項行動的通知》) jointly issued on June 25, 2018 by the Ministry of Housing and Urban-Rural Development, the Publicity Department of the CPC Central Committee, the Ministry of Public Security, the Ministry of Justice, the State Administration of Taxation, the State Administration for Market Regulation and China Banking and Insurance Regulatory Commission, special actions will be taken in some cities, from July to December, 2018. The key issues to be regulated include: (i) speculative purchase of housing, including monopolizing housing resource, manipulating property prices or rental; (ii) illegal or violating behaviors conducted by real estate developers, including selling commodity housing at price different than that filed with the government or increasing price in disguise by imposing additional conditions to limit the legal rights of home buyers (such as bundling parking space or decorating), and violating the provisions on transparent pricing such as not stating sales status or price of housing resource. The Ministry of Housing and Urban-Rural Development has already circulated two lists of law-breaking real estate developers and intermediary agencies.

FOREIGN CURRENCY EXCHANGE AND DIVIDEND DISTRIBUTION

The Foreign Currency Administration Rules

The principal regulations governing foreign currency exchange in the PRC are the Foreign Exchange Administrative Regulations (《外匯管理條例》) (the “SAFE Regulations”) which was promulgated by the State Council and latest amended on August 5, 2008. Under the SAFE Regulations, the RMB is generally freely convertible for current account items, including the distribution of dividends, trade and service related foreign exchange transactions, but not for capital account items, such as direct investment, loan, repatriation of investment and investment in securities outside the PRC, unless the prior approval of the SAFE is obtained.

Pursuant to the Circular of the State Administration of Foreign Exchange on Issues concerning Foreign Exchange Administration over the Overseas Investment and Financing and Round-trip Investment by Domestic Residents via Special Purpose Vehicles (《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》) (the “**SAFE Circular No. 37**”), promulgated by SAFE and which became effective on July 4, 2014, (a) a PRC resident (the “**PRC Resident**”) shall register with the local SAFE branch before he or she contributes assets or equity interests in an overseas special purpose vehicle (the “**Overseas SPV**”), that is directly established or controlled by the PRC Resident for the purpose of conducting investment or financing; and (b) following the initial registration, the PRC Resident is also required to register with the local SAFE branch for any major change, in respect of the Overseas SPV, including, among other things, a change of the Overseas SPV’s PRC Resident shareholder(s), name of the Overseas SPV, term of operation, or any increase or reduction of the Overseas SPV’s registered capital, share transfer or swap, and merger or division. Pursuant to SAFE Circular No. 37, failure to comply with these registration procedures may result in penalties.

Pursuant to the Circular of the State Administration of Foreign Exchange on Further Simplifying and Improving the Direct Investment-related Foreign Exchange Administration Policies (《關於進一步簡化和改進直接投資外匯管理政策的通知》) (the “**Circular 13**”), which was promulgated on February 13, 2015 and with effect from June 1, 2015, the foreign exchange registration under domestic direct investment and the foreign exchange registration under overseas direct investment are directly reviewed and handled by banks in accordance with the Circular 13, and the SAFE and its branches shall perform indirect regulation over the foreign exchange registration via banks.

Regulations on Dividend Distribution

Under the PRC Company laws, a company in the PRC may pay dividends only from accumulated after-tax profits, if any, determined in accordance with the PRC accounting standards and regulations. In addition, such enterprises are required to set aside at least 10.0% of their after-tax profits each year, if any, to fund certain reserve funds. Until such time as the accumulated reserve funds reach and remain above 50.0% of the enterprise’s registered capital amount, these reserves are not distributable as cash dividends. Under the relevant PRC laws, no net assets other than the accumulated after-tax profits can be distributed in the form of dividends.

TAXATION

Enterprise Income Tax

According to the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) (the “EIT Law”), which was promulgated on March 16, 2007 and latest amended on December 29, 2018, a unified income tax rate of 25% is applied for both domestic and foreign-invested enterprises. Furthermore, pursuant to the EIT Law and the Implementation Rules on the Enterprise Income Tax (《企業所得稅法實施條例》) which was promulgated on December 6, 2007 and with effect from January 1, 2008 and amended on April 23, 2019, enterprises are classified as either “resident enterprises” or “non-resident enterprises”. Pursuant to the EIT Law and the EIT Implementation Rules, besides enterprises established within the PRC, enterprises established outside China whose “de facto management bodies” are located in China are considered “resident enterprises” and subject to the uniform 25% enterprise income tax rate for their global income. In addition, the EIT Law provides that a non-resident enterprise refers to an entity established under foreign law whose “de facto management bodies” are not within the PRC but which have an establishment or place of business in the PRC, or which do not have an establishment or place of business in the PRC but have income sourced within the PRC. Furthermore, the EIT Implementation Rules provide that, a withholding tax rate of 10% will be applicable to any dividend payable by foreign-invested enterprises to their non-PRC enterprise investors.

In addition, pursuant to the Arrangement between Mainland China and Hong Kong for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) signed on August 21, 2006 and applicable in Hong Kong to income derived in any year of assessment commencing on or after April 1, 2007 and in mainland China to any year commencing on or after January 1, 2007, a company incorporated in Hong Kong will be subject to withholding income tax at a rate of 5% on dividends it receives from its PRC subsidiaries if it holds a 25% or more of equity interest in each such PRC subsidiary at the time of the distribution, or 10% if it holds less than a 25% equity interest in that subsidiary. According to the Notice of the State Administration of Taxation, or SAT on issues regarding the Administration of Dividend Provisions in Tax Treaties (《國家稅務總局關於執行稅收協定股息條款有關問題的通知》), which was promulgated on February 20, 2009, recipients of dividends paid by PRC enterprises must satisfy certain requirements in order to obtain a preferential income tax rate pursuant to a tax treaty, one such requirement is that the taxpayer must be the “beneficiary owner” of relevant dividends. In order for a corporate recipient of dividends paid by a PRC enterprise to enjoy preferential tax treatment pursuant to a tax treaty, such recipient must be the direct owner of a certain proportion of the share capital of the PRC enterprise at all times during the 12 months preceding its receipt of the dividends. In addition, the Announcement of the State Administration of Taxation on Issues concerning the “Beneficial Owner” 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》) promulgated on February 3, 2018 and became effective on April 1, 2018, defined the “beneficial owner” as a person who owns or controls income or the rights or property based on which the income is generated, and introduced various factors to adversely impact the recognition of such “beneficiary owners”.

Value-added Tax

Pursuant to the Provisional Regulations on Value-added Tax of the PRC (《中華人民共和國增值稅暫行條例》) promulgated on December 13, 1993 revised on February 6, 2016 and latest amended on November 19, 2017 and its implementation rules, all entities or individuals in the PRC engaging in the sale of goods, the provision of processing services, repairs and replacement services, the sale services, intangible assets, immovables, and the importation of goods are required to pay value-added tax (the “VAT”).

Pursuant to the Announcement of the SAT on Promulgating the Interim Administrative Measures for the Collection of Value-added Tax on the Sale of Self-developed Real Estate Projects by Real Estate Developers (《國家稅務總局關於發佈<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>的公告》) which was promulgated on March 31, 2016 and with effect from May 1, 2016 and amended on June 15, 2018, real estate developer shall pay VAT for the sales of its self-developed real estate project.

Circular regarding the Pilot Program on Comprehensive Implementation of VAT from Business Taxes Reform (《關於全面推開營業稅改徵增值稅試點的通知》), promulgated by Ministry of Finance and the SAT on March 23, 2016, effective on May 1, 2016 and amended by Notice on Pilot Policies of Levying VAT in Lieu of Business Tax for Construction Services and Other Sectors (《關於建築服務等營改增試點政策的通知》) on July 11, 2017 and Announcement on Policies to Deepen VAT Reform (《關於深化增值稅改革有關政策的公告》) on March 20, 2019 provides that upon approval by the State Council, the pilot program of replacing business tax with VAT shall be implemented nationwide effective from May 1, 2016 and all business tax payers in construction industry, real estate industry, finance industry and consumer service industry, etc. shall be included in the scope of the pilot program and pay VAT instead of business tax. According to the appendix of this notice, entities and individuals engaging in the sale of services, intangible assets or real property within the territory of the People’s Republic of China shall be the taxpayers of VAT and shall, instead of business tax, pay VAT. The sale of real property and the secondhand housing transaction shall adopt this notice as well. Under the Decision of State Council on Abolition of the Provisional Regulations of the People’s Republic of China on Business

Tax and Revision of the Provisional Regulations of the People's Republic of China on VAT (《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》) which was promulgated on November 19, 2017 and came into effect on the same day, business tax is officially replaced by VAT.

Land Appreciation Tax

Under the Interim Regulations on Land Appreciation Tax of the PRC (《中華人民共和國土地增值稅暫行條例》) promulgated by the State Council on December 13, 1993 and latest amended on January 8, 2011 as well as its implementation rules issued on January 27, 1995 (《中華人民共和國土地增值稅暫行條例實施細則》), land appreciation tax is payable on the appreciation value derived from the transfer of State-owned land use rights and buildings or other facilities on such land, after deducting the deductible items.

LABOR PROTECTION

Pursuant to the PRC Labor Law (《中華人民共和國勞動法》), which was promulgated by the SCNPC on July 5, 1994 and became effective on January 1, 1995 and latest amended on December 29, 2018, the PRC Labor Contract Law (《中華人民共和國勞動合同法》), which was promulgated by the SCNPC on June 29, 2007 and subsequently amended on December 28, 2012 and became effective on July 1, 2013, and the Implementing Regulations of the Employment Contracts Law of the PRC (《中華人民共和國勞動合同法實施條例》), which was promulgated by the State Council and became effective on September 18, 2008, labor contracts in written form shall be executed to establish labor relationships between employers and employees. In addition, wages cannot be lower than local minimum wage. The employers must establish a system for labor safety and sanitation, strictly abide by State rules and standards, provide education regarding labor safety and sanitation to its employees, provide employees with labor safety and sanitation conditions and necessary protection materials in compliance with State rules, and carry out regular health examinations for employees engaged in work involving occupational hazards.

The Notice of the Office of the Ministry of Human Resources and Social Security on Issues of Properly Handling the Employment Relations during the Period of Prevention and Control of Infection Caused by Novel Coronavirus (Ming Dian No. 5 [2020] of the Office of the Ministry of Human Resources and Social Security) (《人力資源社會保障部辦公廳關於妥善處理新型冠狀病毒感染的肺炎疫情防控期間勞動關係問題的通知》(人社廳明電[2020]5號)) issued by the Ministry of Human Resources and Social Security on 24 January, 2020 provides that all patients with Novel Coronavirus, suspected patients and people who have close relationship with them placed in isolation for medical treatments and inspection as well as employees who are not able to provide services due to isolation implemented by the government or other measures in emergencies shall be entitled to compensation from the employers for such periods. The employers shall not terminate the employment contracts with the employees on Article 40 and Article 41 of the Labor Contract Law. During such periods, any employment contract that expires shall be extended to the date when the periods of medical treatment or inspection expire, or the period of isolation or the expiry of such periods when measures for emergencies are taken by the government.

Under applicable PRC laws, including the Social Insurance Law of PRC (《中華人民共和國社會保險法》), which was promulgated by the SCNPC on October 28, 2010 and became effective on July 1, 2011 and amended on December 29, 2018, the Interim Regulations on the Collection and Payment of Social Security Funds (《社會保險費徵繳暫行條例》), which was promulgated by the State Council and became effective on January 22, 1999 and amended on March 24, 2019, and the Regulations on the Administration of Housing Provident Funds (《住房公積金管理條例》), which was promulgated by the State Council and became effective on April 3, 1999, amended on March 24, 2002 and March 24, 2019, employers are required to contribute, on behalf of their employees, to a number of social security funds, including funds for basic pension insurance, unemployment insurance, basic medical insurance,

occupational injury insurance, maternity insurance and to housing provident funds. These payments are made to local administrative authorities and any employer who fails to contribute may be fined and ordered to make good the deficit within a stipulated time limit.

PRC MERGER & ACQUISITION

Pursuant to the Regulations on Mergers of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》) (the “**M&A Rules**”) which was promulgated by the MOFCOM, the State-owned Assets Supervision and Administration Commission of the State Council, the SAT, the SAIC, the China Securities Regulatory Commission and the SAFE on August 8, 2006, and subsequently amended by the MOFCOM on June 22, 2009, acquisition of a domestic enterprise by a foreign investor refers to the purchase by foreign investors of the equity interests of the shareholders of non-foreign invested enterprises established within the territory of PRC or the subscription by foreign investors of the capital increase of domestic companies, thus converting and re-establishing such domestic companies as foreign-invested enterprises; or, and the purchase by agreement of the assets of domestic enterprises and operation of such assets through the foreign-invested enterprises established by foreign investors for the purpose of merging and acquiring domestic enterprises, or, the purchase of the assets of domestic enterprises through agreement by foreign investors who then use such purchased assets to establish a foreign-invested enterprise which operates such assets. As for merger and acquisition of a domestic company with a related party relationship by a domestic company, enterprise or natural person in the name of an overseas company legitimately incorporated or controlled by the domestic company, enterprise or natural person, such merger and acquisition shall be subject to examination and approval of the Ministry of Commerce.

On October 8, 2016, Ministry of Commerce issued the Interim Administrative Measures for the Record-filing of the Incorporation and Change of Foreign-invested Enterprises (the “**Circular 6**”) (《外商投資企業設立及變更備案管理暫行辦法》) which took effect on the same day and amended on July 30, 2017 and further amended on June 29, 2018. According to the Circular 6, where a non-foreign-invested enterprise changes into a foreign-invested enterprise which is not involved in special access administrative measures prescribed by the PRC government due to acquisition, consolidation by merger or otherwise, which is subject to record-filing as stipulated in the Circular 6, it shall complete the record-filing formalities for incorporation and submit the Incorporation Application in accordance with Circular 6. On December 30, 2019, the Ministry of Commerce and the State Administration of Market Regulation issued the Measures for the Reporting of Foreign Investment Information (《外商投資信息報告辦法》), which came into effect on January 1, 2020 and replaced Circular 6. Since January 1, 2020, for foreign investors carrying out investment activities directly or indirectly in China, the foreign investors or foreign-invested enterprises shall submit investment information to the commerce authorities pursuant to these measures.

RECORD FILING AND REGISTRATION

The Circular on Promoting the Reform of the Administrative System on the Issuance by Enterprises of Foreign Debt Filings and Registrations (《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 or its local counterparts (“**NDRC**”) on September 14, 2015 which came into effect on the same day, relates to the matters as listed below:

- remove the quota review and approval system for the issuance of foreign debts by enterprises, reform and innovate the ways that foreign debts are managed, and implement the administration of record-filing and the registration system. Realize the supervision and administration of the size of foreign debts borrowed on a macro level with the record-filing, registration, and information reporting of the issuance of foreign debts by enterprises;

- before the issuance of foreign debts, enterprises shall first apply to NDRC for the handling of the record-filing and registration procedures and shall report the information on the issuance to NDRC within ten working days of completion of each issuance;
- record-filing and registration materials to be submitted by an enterprise for the issuance of foreign debts shall include: application report for the issuance of foreign debts and issuance plan, including the currency, size, interest rate, and maturity of foreign debts, the purpose of the funds raised, back flow of funds, etc. The applicant shall be responsible for the authenticity, legality, and completeness of the application materials and information;
- NDRC shall decide whether to accept the application for record-filing and registration within five working days of receiving it and shall issue a Certificate for Record-filing and Registration of the Issuance of Foreign Debts by Enterprises within seven working days of accepting the application and within the limit of the total size of foreign debts;
- the issuer of foreign debts shall handle the procedures related to the outflow and inflow of foreign debt funds with the Certificate for Record-filing and Registration according to the regulations. When the limit of the total size of foreign debts is exceeded, NDRC shall make a public announcement and no longer accept applications for record-filing and registration; and
- if there is a major difference between the actual situation of the foreign debts issued by the enterprises and the situation indicated in the record-filing and registration, an explanation shall be given when reporting relevant information. NDRC shall enter the poor credit record of an enterprise which maliciously and falsely reports the size of its foreign debts for record filing and registration into the national credit information platform.

Pursuant to the Foreign Debt Registration Measures and its operating guidelines (《外債登記管理辦法及操作指南》), effective as of May 13, 2013, issuers of foreign debts are required to register with SAFE. Issuers other than banks and financial departments of the government shall go through registration or record-filing procedures with the local branch of SAFE within 15 business days of entering into a foreign debt agreement. If the receipt and payment of funds related to the foreign debt of such issuer is not handled through a domestic bank, the issuer shall, in the event of any change in the amount of money withdrawn, principal and interest payable or outstanding debt, go through relevant record-filing procedures with the local branch of SAFE.

MANAGEMENT

Our Board currently consists of seven Directors, comprising six executive Directors and three independent non-executive Directors. Our Board is responsible and has general powers for the management and conduct of our business. The table below shows certain information in respect of the members of our Board as of the date of this offering memorandum:

| Name | Age | Existing Position in our Company, Roles and Responsibilities |
|--------------------------------|-----|--|
| ZHANG Zhangsun (張章筭) | 64 | Chairman, executive Director and president; responsible for strategic planning, development, operation and management of our Group |
| RUAN Wenjuan (阮文娟) | 42 | Executive Director and vice president; responsible for bidding affairs, cost management and financial management of our Group |
| ZHANG Jin (張瑾) | 36 | Executive Director and vice president; responsible for commercial management of our Group |
| LIN Yaoquan (林耀泉) | 53 | Executive Director and executive president of our Company; responsible for operation and project management of our Group |
| DONG Xueer (董雪兒) | 42 | Executive Director and Chief Financial Officer of our Company; responsible for financial affairs of our Group |
| LI Bin (李斌) | 48 | Executive Director and vice president of the Company; responsible for small medium business operation of our Group |
| LUO Zhenbang (羅振邦) | 54 | Independent non-executive Director; performing roles as a non-executive Director |
| LAI Siming (賴思明) | 62 | Independent non-executive Director; performing roles as a non-executive Director |
| CHEN Jingru (陳靜茹) | 56 | Independent non-executive Director; performing roles as a non-executive Director |

Directors

Executive Directors

Mr. ZHANG Zhangsun (張章筭), or Chairman Zhang, aged 64, is the founder of the Group and one of the Controlling Shareholders. Chairman Zhang also serves as executive Director, president and the chairman of the Nomination Committee of the Company and as chairman of Beijing Glory Xingye Real Estate Holding Limited (北京國瑞興業房地產控股有限公司) (“New Beijing Glory”). Chairman Zhang has over 20 years of experience in real estate development, management and operation. He established our Group in April 1994 and has since led the Group in its development of real estate projects. Before he established our Group, Chairman Zhang used to work in the Shantou Commodities Bureau from 1980 to 1987. Chairman Zhang is also a member of the Chinese People’s Political Consultative Committee of Beijing Municipality, a member of the standing committee of the Chinese People’s Political Consultative Committee of Dongcheng District of Beijing, a representative of the National People’s Congress of Shantou Municipality, an executive committee member and the vice chairman of Real Estate Chamber of Commerce of the All-China Federation of Industry and Commerce and the chairman of Chaoshan Chamber of Commerce in Beijing. He graduated from high school in Shantou in July 1969.

Ms. RUAN Wenjuan (阮文娟), aged 42, the spouse of Chairman Zhang, serves as executive Director, vice president, a member of the Remuneration Committee, a member of the Internal Control Committee of the Company and as director of New Beijing Glory. Ms. Ruan joined the Group in January 2000 and was responsible for financial management related work in Shantou Garden Group Co., Ltd. (汕頭花園集團有限公司) (“Garden Group”). She successively served as the financial manager and chief financial officer in Original Beijing Glory since 2004. In August 2006, Ms. Ruan was appointed as a director and vice president in Original Beijing Glory and was primarily responsible for the cost management and financial management affairs of our Group. Ms. Ruan completed the real estate EMBA program from Tsinghua University in September 2004.

Ms. ZHANG Jin (張瑾), aged 36, the daughter of Chairman Zhang, serves as executive Director and vice president of the Company and as director of New Beijing Glory. Ms. Zhang joined the Group in August 2006 and served as the assistant to the chairman of Original Beijing Glory. Since August 2008, Ms. Zhang served as the vice president of Original Beijing Glory, primarily responsible for the management and operation of our commercial properties. She is also the executive director of Beijing Glory Industrial Commercial Management Limited (北京國瑞興業商業管理有限公司) (“Glory Commercial Management”) and chairman of Beijing Yinhe Glory Commercial Investment Co., Ltd. (北京銀和國瑞商業投資有限公司). Ms. Zhang graduated from Holmes Institute in Australia majoring in business administration in August 2007. She also participated in the international real estate advanced leadership program in Harvard University in May 2007, the globalized city and real estate operator course in The University of Hong Kong in January 2008 and the entrepreneur development program in globalization in University of Cambridge in April 2008. Ms. Zhang was awarded “China Real Estate Top Hundred Person” (中國房地產百傑) by CIHAF China Real Estate Mainstream Media Alliance (CIHAF中國房地產主流媒體聯盟) in 2008, “China Shopping Mall Center Top Professional of Year 2010” (中國購物中心2010年度職業精英) by PURCHASING Union Mall Development Committee (中購聯購物中心發展委員會) in 2010 and “China Commercial Properties Influential Person” (中國商業地產影響力人物) by China Commercial Real Estate Industry Development Forum (中國商業地產行業發展論壇) in 2013. Ms. Zhang is also a vice chairman of Chamber of Commerce of Dongcheng District of Beijing, council of China Commercial Real Estate Association, vice chairman of China International SME Union and member of the Chinese People’s Political Consultative Committee of Dongcheng District of Beijing.

Mr. LIN Yaoquan (林耀泉), aged 53, the brother-in-law of Chairman Zhang, serves as the executive Director and executive president of the Company and general manager of Garden Group, Shantou Glory Real Estate Development Co., Ltd. (汕頭市國瑞房地產開發有限公司), Shantou Guohua Properties Real Estate Development Co., Ltd. (汕頭市國華置業地產開發有限公司), Shantou Glory Zhoucuowen Real Estate Development Co., Ltd. (汕頭市國瑞周厝塢房地產開發有限公司) and Shantou Glory Construction Materials & Home Furnishing Exhibition Center Co., Ltd. (汕頭國瑞建材家居博覽中心有限公司). Mr. Lin joined the Group in August 2004 and has served as the vice president and regional general manager of Shantou Region of Original Beijing Glory since 2009. He has also been the general manager of Shantou Industrial Materials Exchange Center (汕頭工業材料交易中心) since 2004. Before joining the Group, Mr. Lin served as a clerk of the import and export department of Shantou Jinming Wujin Material Co., Ltd. (汕頭市金明五金材料有限公司) from April 1989 to May 1993, responsible for daily operation of the import and export department; the manager of the import and export department of Shantou Jinming Development Company (汕頭金明發展公司) from June 1993 to February 1998, responsible for daily operation of the import and export department; general manager of Chaozhou Caitang Yaolong Stainless Steel Products Co., Ltd. (潮州彩塘耀隆不銹鋼製品有限公司) from July 1998 to March 2004, responsible for overall management of this company.

Ms. DONG Xueer (董雪兒), aged 42, serves as executive Director and the chief financial officer of the Company. Ms. Dong joined the Group in October 1997 and successively served as the general accountant in Shantou Glory Management Limited (汕頭國瑞企業管理有限公司) from October 1997 to January 2003, account officer in Original Beijing Glory from February 2003 to July 2008 and chief financial officer in Shenyang Dadongfang Property Development Co., Ltd. (瀋陽大東方置業有限公司) from August 2008 to February 2010. Since March 2010, Ms. Dong has served as the chief financial officer in Original Beijing Glory, responsible for its overall financial management, including but not limited to fund management, loan management, asset management and accounting computations. Ms. Dong obtained a college degree in accounting from the University of International Business and Economics in July 2006.

Mr. LI Bin (李斌), aged 48, serves as executive Director and vice president of the Company. Mr. Li joined the Group in July 1997 and successively served as the procurement manager, sales manager and public relationship manager of Garden Group, the deputy general manager of Hainan Glory Real Estate Development Co., Ltd. (海南國瑞房地產開發有限公司), the chairman of Shenyang Dadongfang Property Development Co., Ltd. (瀋陽大東方置業有限公司) and the secretary to the chairman and the assistant to the chairman of the Company. He has worked in Original Beijing Glory since 2002 and served as the chairman of the supervisory committee. Mr. Li is also the vice chairman of Qianmen Branch of Dongcheng District of Beijing Federation of Industry & Commerce, the vice chairman of Chaozhou Natives Overseas Association in Beijing and the member of Dongcheng District’s 16th National People’s Congress of Beijing. Mr. Li completed business administration programme from International Business University of Beijing in July 2006.

Independent Non-executive Directors

Mr. LUO Zhenbang (羅振邦), aged 54, serves as independent non-executive Director, chairman of the Audit Committee, a member of the Remuneration Committee, a member of the Nomination Committee and a member of the Internal Control Committee of the Company. Mr. Luo was appointed as an independent non-executive Director of the Company on July 5, 2013. Mr. Luo is the director and senior partner of BDO China Shu Lun Pan CPAs. He has been an independent non-executive director of China Aerospace International Holding Limited (a company listed on the Stock Exchange, stock code: 31) since December 2004, and an independent director of China City Railway Transportation Technology Holdings Company Limited (a company listed on the Stock Exchange, stock code: 1522) since November 2012, Xinjiang Goldwind Science & Technology Co., Ltd. (a company listed on the Stock Exchange (stock code: 2208) and Shenzhen Stock Exchange (stock code: 002202)) since June 2013 and Digital China Information Service Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 000555) since January 2014, respectively. Mr. Luo is also a member of internal audit team of Northeast Securities Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 000686). Mr. Luo used to worked successively in several accounting firms, namely Ningxia CPAs (寧夏會計師事務所), Zhongzhou CPAs (中洲會計師事務所), Zhong Tian Xin CPAs (中天信會計師事務所) and Tianhua CPAs (天華會計師事務所) before he joined BDO China Shu Lun Pan CPAs in May 2008. He also used to serve as a supervisor in China Cinda Asset Management Co., Ltd. from January 2001 to December 2002 and China Greatwall Asset Management Co., Ltd. from January 2003 to December 2004. He was also an independent director of Ningxia Zhongyin Cashmere Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 982) between 2001 to 2004, Long March Launch Vehicle Technology Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600879) between 2002 to 2008, Ningxia Orient Tantalum Industry Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 962) between 2002 to 2005, Wuzhong Instrument Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 862) between 2004 to 2005 and AVIC Heavy Machinery Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600765) between 2010 to 2011, respectively. Mr. Luo was awarded professional qualifications as a certified public accountant by the MOF in January 1995 and a certified accountant in securities and futures industry by the MOF and CSRC in July 1997. He graduated from the School of Business of Lanzhou in June 1991 majoring in Enterprise Management and obtained the Master's degree in enterprise management and innovation from the Australia National University in July 2007.

Mr. LAI Siming (賴思明), aged 62, serves as independent non-executive Director, chairman of the Remuneration Committee, a member of the Audit Committee and a member of the Nomination Committee of the Company. Mr. Lai was appointed as independent non-executive Director of the Company on July 5, 2013. Mr. Lai has been the member of the Royal Institution of Chartered Surveyors since June 1983 and the member of the Hong Kong Institute of Surveyors since August 1984. In April 1999, Mr. Lai became the fellow member of the Hong Kong Institute of Surveyors. Mr. Lai is a professional surveyor and has considerable experience in the property field. Between September 1980 to February 1994 and August 1997 to June 2002, Mr. Lai was working in Knight Frank (known as F.Y. Kan & Partners in 1980), an international property consultant firm, offering property consulting services. Mr. Lai is an independent non-executive director of Asia Commercial Holdings Limited (a company listed on the Stock Exchange, stock code: 104) since August 1998. Mr. Lai was also an independent non-executive director of The Sun's Group Limited (a company listed on the Stock Exchange, stock code: 988) from May 2002 to March 2003. Mr. Lai served as the Vice Chairman, General Practice Division of the Hong Kong Institute of Surveyors for two years (GPD Council 2001-2003). Mr. Lai obtained a Master's degree in business administration from The Chinese University of Hong Kong in November 2001.

Ms. CHEN Jingru (陳靜茹), aged 56, serves as independent non-executive Director, chairman of the Internal Control Committee and a member of the Audit Committee of the Company. Ms. Chen was appointed as independent nonexecutive Director of the Company on June 5, 2014. Ms. Chen is the global partner of DeHeng Law Offices. Ms. Chen has been working in DeHeng Law Offices since 1993 and has extensive experience in the corporate and securities aspects. Ms. Chen was awarded her professional qualification as a lawyer conferred by the Lawyer Qualification Committee of the PRC Ministry of Justice in March 1993. She obtained a Bachelor's degree majoring in law in July 1985 and a Master's degree majoring in law in December 1990 from Nankai University.

Senior Management

The table below sets forth certain information concerning our other senior management members:

| Name | Age | Existing Position in our Company, Roles and Responsibilities |
|------------------------------|-----|--|
| HAO Zhenhe (郝振河) | 65 | Vice president, responsible for the overall management in Langfang |
| SUN Xiaodong (孫曉東) | 51 | Vice president, responsible for the bidding and procurement and cost management affairs of our Group |
| LIU Wenling (劉文玲) | 48 | Vice president, responsible for cost management affairs of our Group |
| YAN Shuang (閆雙) | 39 | Assistant to the Chairman, responsible for the chairman office affairs and president office affairs |
| ZHENG Jin (鄭瑾) | 37 | Board Secretary, responsible for the secretarial affairs |

Mr. HAO Zhenhe (郝振河), aged 65, serves as the vice president of the Company and as the general manager of Langfang Glory. Mr. Hao joined our Group in July 2001 and has successively served as the head of the general office and head of the planning and development department of Original Beijing Glory, the general manager of Glory Service and vice president of Original Beijing Glory. Before joining us, Mr. Hao worked at the International Liaison department of the Chinese Communist Party Central Committee from April 1971 to April 2001. Mr. Hao obtained a college degree in journalism from the college of journalism of All-China Journalists Association (中國記協新聞學院) in July 1992.

Mr. SUN Xiaodong (孫曉東), aged 51, serves as the vice president of the Company, and is responsible for bidding and procurement as well as cost management. Mr. Sun joined the Group in 2014 and has over 10 years of experience in project management and 18 years of experience in real estate operation. Before joining us, Mr. Sun served in renowned property companies such as Tsinghua Tongfang Nuclear Technology Limited (清華同方核技術股份有限公司), Longfor Properties Co., Ltd (龍湖地產有限公司) and HKI China Land (香江國際中國地產有限公司). Mr. Sun obtained a bachelor's degree in business administration from Renmin University of China and held qualifications as a senior engineer, a PRC certified budgeting specialist and a real estate valuer.

Ms. LIU Wenling (劉文玲), aged 48, serves as the vice president of the Company, joined the Company in February 2016, and is responsible for cost management. Before joining the Company, Ms. Liu served as the assistant manager of the auditing management department of Beijing Sunshine 100 Real Estate Group (北京陽光壹佰置業集團有限公司) from March 2003 to February 2005. From February 2005 to September 2009, Ms. Liu served as the deputy general manager of the contract management department of the North China Region Headquarter of Forte Group (複地集團). From September 2009 to March 2013, Ms. Liu served as the director of the cost and contract management department of Minmetals Land Limited (五礦建設有限公司). From March 2013 to August 2015, Ms. Liu served as the general manager of the cost and contract management department of China Jinmao (中國金茂). Ms. Liu obtained a bachelor's degree in environmental engineering from East China University of Science and Technology in July 1995.

Mr. YAN Shuang (閆雙), aged 39, serves as the assistant to the Chairman of the Company. Mr. Yan joined our Group in March 2004 and has since successively served as various positions in our Group, namely the security head of Glory Industrial from March 2004 to February 2005; the deputy general manager of Glory Services from February 2005 to September 2009; the deputy general manager of Glory Commercial Management from September 2009 to March 2012; and the assistant to the chairman and the director of the president office of Original Beijing Glory since March 2012. Mr. Yan was awarded a certificate in property management in June 2011 by Beijing Municipal Commission of Housing and Urban-Rural Development. He is pursuing a college degree in business administration at the School of Network and Continuing Education of Xidian University.

Ms. ZHENG Jin (鄭瑾), aged 37, serves as the board secretary and joint company secretary of the Company. Ms. Zheng joined our Group in January 2010 and has served as the vice president of the capital and financial management center and the operation and construction management center of Original Beijing Glory since October 2010 and February 2013, respectively. Before joining us, she served as the assistant manager in KPMG Huazhen (special general partnership) from July 2007 to January 2010, responsible for auditing. Ms. Zheng was awarded the qualification as a certified public accountant by the Chinese Institute of Certified Public Accountants in August 2009. She obtained a bachelor's degree in engineering management in July 2004 and a master's degree in finance in June 2007 from Central University of Finance and Economics.

Joint Company Secretaries

Ms. ZHENG Jin (鄭瑾), aged 37, serves as the joint company secretary of the Company. See the sub-section entitled “— Senior Management” of this section for her biography.

Ms. KWONG Yin Ping Yvonne (鄺燕萍), serves as the joint company secretary of the Company. Ms. Kwong is a vice president of SW Corporate Services Group Limited, a specialty corporate services provider focusing on the provision of listing company secretarial and compliance services. She holds a degree in accountancy from the Hong Kong Polytechnic University and is a fellow of The Hong Kong Institute of Chartered Secretaries and a fellow of The Institute of Chartered Secretaries and Administrators. Ms. Kwong has extensive experience in providing company secretarial and compliance services to numerous private and listed companies.

Board Committees

Audit Committee

We established an audit committee on June 5, 2014 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C.3 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The audit committee consists of three independent non-executive Directors including Mr. Luo Zhenbang, Mr. Lai Siming and Ms. Chen Jingru. The audit committee is chaired by Mr. Luo Zhenbang. The primary duties of the audit committee are to assist the Board in providing an independent view of the effectiveness of the financial reporting process, internal control and risk management system of our Group, to oversee the audit process and to perform other duties and responsibilities as assigned by the Board.

Remuneration Committee

We established a remuneration committee on June 5, 2014 with written terms of reference in compliance with paragraph B.1 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The remuneration committee consists of two independent non-executive Directors, namely Mr. Lai Siming, Mr. Luo Zhenbang and one executive Director, namely Ms. Ruan Wenjuan. The remuneration committee is chaired by Mr. Lai Siming. The primary duties of the remuneration committee are, among other things, to make recommendations to the Board on the Company's policy and structure for all Directors' and senior management members' remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy.

Nomination Committee

We established a nomination committee on June 5, 2014 with written terms of reference in compliance with paragraph A.4 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The nomination committee consists of one executive Director, namely Chairman Zhang and two independent non-executive Directors, namely Mr. Luo Zhenbang and Mr. Lai Siming. The nomination committee is chaired by Chairman Zhang. The primary duties of the nomination committee are, among other things, to review the structure, size and composition of the Board, to assess the independence of the independent non-executive Directors and to make recommendations to the Board on the appointment and re-appointment of Directors.

Internal Control Committee

We established an internal control committee on June 5, 2014. The internal control committee consists of two independent non-executive Directors, namely Ms. Chen Jingru and Mr. Luo Zhenbang and one executive Director, namely Ms. Ruan Wenjuan. The internal control committee is chaired by Ms. Chen Jingru. The primary duties of the internal control committee are, among other things, to review and discuss the solutions to regulatory, compliance and internal control related matters and report to the Board on a quarterly basis.

Compensation of Directors and Senior Management

Our executive Directors, who are also our employees, receive, in their capacity as our employees, compensation in the form of salary and cash bonus.

The aggregate amount of remuneration including fees, salaries, contributions to pension schemes, housing allowances and other allowances and benefits in kind and discretionary bonuses which were paid to our Directors for the years ended December 31, 2017, 2018, 2019 and for the six months ended June 30, 2019 and 2020 was RMB12.1 million, RMB11.6 million, RMB14.0 million (US\$2.0 million), RMB7.5 million and RMB7.2 million (US\$1.0 million), respectively.

The aggregate amount of remuneration, including fees, salaries, contributions to pension schemes, housing allowances and other allowances and benefits in kind and discretionary bonuses which were paid by us to our five highest paid individuals for the years ended December 31, 2017, 2018 and 2019 was RMB15.3 million, RMB13.3 million and RMB12.4 million (US\$1.8 million), respectively.

No remuneration was paid by us to the Directors or the five highest paid individuals as an inducement to join or upon joining us or as a compensation for loss of office in respect of the years ended December 31, 2017, 2018 and 2019. Further, none of our Directors waived any remuneration during the same periods.

PRINCIPAL SHAREHOLDERS

The following table sets forth certain information regarding ownership of our outstanding shares as of June 30, 2020 by those persons who beneficially own more than 5% of our outstanding shares, as recorded in the register maintained by us pursuant to Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong (the “SFO”)):

| Name of Shareholder | Nature of Interest | Number of Shares | Approximate Percentage of Interest in our Company |
|---|---|------------------|---|
| Zhang Zhangsun (“Chairman Zhang”) ⁽¹⁾ | Interest of a controlled corporation | 3,397,713,570 | 76.45% |
| Ruan Wenjuan | Interest of spouse | 3,397,713,570 | 76.45% |

Notes:

- (1) Altogether Land Company Limited (“**Alltogether**”) is wholly-owned by Chairman Zhang. As such, Chairman Zhang, through Alltogether, is indirectly interested in the shares held by Alltogether. Further, as Ms. Ruan Wenjuan, an executive Director of our Company, is the spouse of Chairman Zhang, Ms. Ruan Wenjuan is also deemed to be interested in the shares held by Alltogether under the SFO.

RELATED PARTY TRANSACTIONS

The following discussion describes certain material related party transactions between our consolidated subsidiaries and our directors, executive officers and principal shareholders and, in each case, the companies with whom they are affiliated. Each of our related party transactions was entered into in the ordinary course of business, on fair and reasonable commercial terms, in our interests and the interests of our shareholders.

As a listed company on the Hong Kong Stock Exchange, we are subject to the requirements of Chapter 14A of the Listing Rules which require certain “connected transactions” with “connected persons” be approved by a company’s independent shareholders. Each of our related party transactions disclosed hereunder that constitutes a connected transaction within the meaning of the Listing Rules requiring shareholder approval has been so approved, or otherwise exempted from compliance under Chapter 14A of the Listing Rules.

A. At the end of each relevant period, the Group has amounts receivable from the following related parties and the details are set out below:

| Name of Related Party | As of December 31, | | | | As of June 30, | | |
|--|--------------------|------------------|------------------|---------|--------------------|--------------------|---------|
| | 2017 | 2018 | 2019 | 2019 | 2019 | 2020 | 2020 |
| | RMB (audited) | RMB (audited) | RMB (audited) | US\$ | RMB (unaudited) | RMB (unaudited) | US\$ |
| | (in thousands) | | | | | | |
| Trade nature | | | | | | | |
| Foshan Yinhe | 16,792 | 16,772 | 22,432 | 3,175 | 16,772 | 22,764 | 3,222 |
| Beijing Huirui | — | — | 7,204 | 1,020 | — | 7,204 | 1,020 |
| Beijing Dayuan Tongrui | — | — | 2,150 | 304 | — | 4,000 | 566 |
| Guoyin Fund Investment Management. | — | — | 228 | 32 | — | — | — |
| Glory Services. | 3,823 | — | — | — | — | — | — |
| Shenyang Xingda | 662 | — | — | — | — | — | — |
| Glory Commercial Management | — | — | — | — | 725 | — | — |
| Non-trade nature | | | | | | | |
| Guangdong Guosha Investment | — | — | 2,817,490 | 398,790 | — | 2,583,062 | 365,609 |
| Ruida Zhiye | 2,073,866 | 970,520 | 1,301,157 | 184,167 | 1,754,592 | 1,255,651 | 177,726 |
| Shantou Guoxia | — | 462,224 | — | — | 1,030,253 | — | — |
| Maorui Zhiye | 827,914 | 511,390 | 135,095 | 19,122 | 65,054 | 739,331 | 104,646 |
| Longhu Huamu | — | 4,000 | 4,000 | 567 | 94,712 | 4,000 | 567 |
| Wuxi Glory | — | 124,439 | 76,521 | 10,831 | 147,850 | 75,262 | 10,653 |
| Tianjin Zhongrui Xingye | — | — | — | — | — | 72,475 | 10,258 |
| Glory Services. | — | 6,360 | 20,171 | 2,855 | 9,329 | 38,524 | 5,453 |
| Tangshan Guosha Real Estate | — | — | — | — | — | 26,100 | 3,694 |
| Glory Commercial Management | — | 12,855 | 14,573 | 2,063 | 15,425 | 14,775 | 2,091 |
| Shenzhen Glory Industrial | 5,000 | 5,000 | 9,110 | 1,289 | 9,000 | 9,110 | 1,289 |
| Jinming Wujin | — | — | 5,689 | 805 | — | 6,648 | 941 |
| Shenzhen Guorui Medical | — | — | — | — | — | 5,526 | 782 |
| Ruimao Real Estate | — | 458,376 | 16,580 | 2,347 | 25,099 | 4,592 | 650 |
| Xian Ruihe. | — | 440 | 3,011 | 426 | 1,971 | 4,426 | 627 |
| Shenzhen guokesheng robot | — | — | — | — | — | 3,998 | 566 |
| Shenzhen Aiguoyi | — | — | — | — | — | 2,983 | 422 |
| Shenzhen Guoyu | — | — | — | — | — | 2,655 | 376 |
| Foshan Yinhe | — | 14,645 | 17,001 | 2,406 | 16,901 | 2,467 | 349 |
| Hainan Glory Commercial Management. | — | 847 | 1,264 | 179 | 1,264 | 1,264 | 179 |
| Shenyang Xingda | — | 860 | 1,160 | 164 | 1,160 | 1,160 | 164 |
| Alltogether Land | 140 | 145 | 5,811 | 823 | 1,688 | 542 | 77 |

| Name of Related Party | As of December 31, | | | | As of June 30, | | |
|---------------------------------|--------------------|------------------|------------------|---------|--------------------|--------------------|---------|
| | 2017 | 2018 | 2019 | 2019 | 2019 | 2020 | 2020 |
| | RMB (audited) | RMB (audited) | RMB (audited) | US\$ | RMB (unaudited) | RMB (unaudited) | US\$ |
| | (in thousands) | | | | | | |
| Shenzhen Diyun | — | — | — | — | — | 37 | 5 |
| Tung Wo International | — | — | 2 | <1 | — | 22 | 3 |
| Mr. Zhang Zhangsun | — | — | 7 | 1 | — | — | — |
| Total | 2,928,197 | 2,588,873 | 4,460,656 | 631,365 | 3,191,795 | 4,888,578 | 691,934 |

B. At the end of each relevant period, the Group has amounts payable to the following related parties and the details are set out below:

| Name of Related Party | As of December 31, | | | | As of June 30, | | |
|--|--------------------|------------------|------------------|---------|--------------------|--------------------|---------|
| | 2017 | 2018 | 2019 | 2019 | 2019 | 2020 | 2020 |
| | RMB (audited) | RMB (audited) | RMB (audited) | US\$ | RMB (unaudited) | RMB (unaudited) | US\$ |
| | (in thousands) | | | | | | |
| Trade nature | | | | | | | |
| Glory Services | 9,847 | 12,055 | 11,252 | 1,593 | 12,018 | 20,717 | 2,932 |
| Shenyang Xingda | — | 347 | 674 | 95 | 385 | 605 | 86 |
| Glory Commercial Management | 2,417 | 45 | 32,212 | 4,559 | 9,707 | 57,685 | 8,165 |
| Non-trade nature | | | | | | | |
| Shantou Guoxia | — | 1,415,906 | 2,713,155 | 384,022 | 1,418,073 | 1,563,258 | 221,265 |
| Longhu Huamu | — | 1,528,011 | 1,427,788 | 202,090 | 752,992 | 2,842,493 | 402,329 |
| Alltogether Land | 605,521 | 1,225,142 | 717,242 | 101,519 | 634,598 | 874,185 | 123,733 |
| Ruimao Real Estate | — | 82,820 | 419,147 | 59,326 | 348,688 | 303,453 | 42,951 |
| Shenzhen Glory Industrial | — | — | — | — | — | 7,800 | 1,104 |
| Shantou Chenghai | — | — | — | — | 235 | 234 | 33 |
| Glory Services | — | — | 189 | 27 | — | 214 | 30 |
| Shenzhen Deep Sea | — | — | — | — | — | 200 | 28 |
| Beijing Yinhe | — | — | 148 | 21 | — | 148 | 21 |
| Shantou Chenghai Glory | — | — | — | — | — | 100 | 14 |
| Mr. Zhang Zhangsun | — | — | — | — | — | 4 | 1 |
| Tung Wo International | — | — | 200 | 28 | — | — | — |
| Shantou Garden Services | — | 650 | — | — | — | — | — |
| Jinming Wujin | 181 | 190 | — | — | 190 | — | — |
| Foshan Yinhe | — | — | — | — | 148 | — | — |
| Shenzhen guokesheng robot | — | — | — | — | 98 | — | — |
| Shantou Garden Hotel | 3 | — | — | — | — | — | — |
| Ruida Zhiye | 7,000 | — | — | — | — | — | — |
| Guangdong Hongtai Guotong | 67,020 | — | — | — | — | — | — |
| Guangdong Guosha | 11,370 | — | — | — | — | — | — |
| Tianjin Tianfu Rongsheng | 44,890 | — | — | — | — | — | — |
| Sanya Jingheng | 67,130 | — | — | — | — | — | — |
| Handan Guoxia | 31,430 | — | — | — | — | — | — |
| Chongqing Guosha | 12,080 | — | — | — | — | — | — |
| Heshan Tengyue | 34,340 | — | — | — | — | — | — |
| Total | 893,229 | 4,265,166 | 5,322,007 | 753,281 | 3,177,132 | 5,671,096 | 802,692 |

C. During the relevant periods, the Group entered into the following transactions with its related parties:

| Name of Related Party | Nature of Transaction | As of December 31, | | | | As of June 30, | | |
|-------------------------------------|----------------------------------|--------------------|---------------|---------------|--------------|----------------|---------------|--------------|
| | | 2017 | 2018 | 2019 | 2019 | 2019 | 2020 | 2020 |
| | | RMB | RMB | RMB | US\$ | RMB | RMB | US\$ |
| | | (in thousands) | | | | | | |
| Glory Commercial Management | Property management services fee | 42,978 | 26,658 | 35,852 | 5,075 | 9,706 | 11,815 | 1,672 |
| Foshan Yinhe | Property management services fee | 24,502 | 514 | — | — | — | — | — |
| Shenyang Xingda . . . | Property management services fee | 3,838 | 2,715 | — | — | — | — | — |
| Glory Services | Property management services fee | 11,944 | 10,925 | 24,447 | 3,460 | 3,533 | 10,912 | 1,545 |
| Total | | 83,262 | 40,812 | 60,299 | 8,535 | 13,239 | 22,727 | 3,217 |

DESCRIPTION OF OTHER MATERIAL INDEBTEDNESS

To fund our existing property projects and to finance our working capital requirements, we have entered into loan agreements and trust financing agreements with various banks and financial institutions. As of June 30, 2020, our outstanding current and non-current bank and other borrowings amounted to RMB23,074.4 million (US\$3,266.0 million) and our corporate bonds decreased to RMB588.7 million (US\$83.3 million). As of June 30, 2020, we had outstanding senior notes of RMB3,970.9 million (US\$562.0 million). Set forth below is a summary of the material terms and conditions of our material loans and other indebtedness as of the date of this offering memorandum.

PRC BANK LOAN AGREEMENTS

Certain of our PRC subsidiaries have entered into loan agreements with various PRC banks, including but not limited to Agricultural Bank of China Limited, Ping An Bank Co., Ltd., Bank of Beijing Co., Ltd.. These PRC bank loans include project loans to finance the construction of our projects and loans to finance our working capital requirements. They have terms ranging from one year to 15 years, which generally correspond to the construction periods of the particular projects. As of June 30, 2020, the aggregate outstanding amount under these PRC bank loans totaled approximately RMB19,129.1 million (US\$2,707.5 million), of which RMB4,785.1 million (US\$677.3 million) was due within one year, RMB3,616.8 million (US\$511.9 million) was due between one and two years, RMB3,618.5 million (US\$512.2 million) was due between two and five years, and RMB7,108.7 million (US\$1,006.2 million) was due more than five years.

Subsequent to June 30, 2020 and as of November 30, 2020, we incurred additional material PRC bank loans in the aggregate amount of RMB1,980.0 million (US\$280.3 million), and we repaid PRC bank loans in the aggregate amount of RMB2,568.9 million (US\$363.6 million).

Interest

The principal amounts outstanding under these PRC bank loans generally bear interest at floating rates calculated by reference to the interest rates quoted by the People's Bank of China. Floating interest rates are generally subject to review by the banks annually. Interest payments are payable either monthly or quarterly and must be made on each payment date as provided in the particular loan agreement. As of June 30, 2020, the effective interest rate on the aggregate outstanding amount of these PRC bank loans ranged from 4.75% to 13.65% *per annum*.

Covenants

Under these PRC bank loans, many of our subsidiary borrowers have agreed, among other things, not to take the following actions without first obtaining the lenders' prior consent:

- create encumbrances on any part of their property or assets or deal with their assets in a way that may adversely affect their ability to repay the loans;
- grant guarantees to any third parties that may adversely affect their ability to repay the loans;
- pay dividends to their parent companies until the loans are fully repaid;
- make any major changes to their corporate structures, such as entering into joint ventures, mergers, spin-offs and acquisitions and reorganizations or change their status, such as through liquidation and dissolution;
- alter the nature or scope of their business operations in any material respect;
- incur additional debts that may adversely affect their ability to repay the loans;

- prepay the loans; and
- transfer part or all of their liabilities under the loans to a third party.

Events of Default

These PRC bank loans contain certain customary events of default, including insolvency, material adverse change in the collateral and breaches of the terms of the loan agreements. The banks are entitled to terminate their respective agreements and/or demand immediate repayment of the loans and any accrued interest upon the occurrence of an event of default.

Guarantee and Security

As of June 30, 2020, most of our PRC bank loans are secured by properties under development for sale, properties held for sale, investment properties, equity interests of subsidiaries and prepaid lease payments as well as property, plant and equipment and restricted bank deposits, or combinations of the above.

Dividend Restrictions

Under these PRC bank loans, many of our subsidiary borrowers are subject to the following clauses of restrictions on dividend distributions:

- dividends shall not be distributed during the duration of the loans;
- without the notification and consent of the lender, dividends shall not exceed 30% of the current year's after-tax net profits or 20% of all the undistributed profits;
- cash dividends shall not be distributed before the repayment of the principal and interest of the loans in full;
- dividends shall not be distributed in any form if the net after-tax profit at the relevant fiscal year is zero or negative, or the after-tax profit is insufficient to make up accumulated losses in the previous fiscal years, or the pre-tax profit is not used to pay off the principal, interest or costs due in the fiscal year, or the pre-tax profit is insufficient to pay off the next installment of principal, interest and costs;
- dividends arising from the pledged equity shall be deposited into the supervisory account agreed upon by the lenders; and
- dividends arising from the pledged equity shall be used as additional guaranty.

OFFSHORE BANK LOAN AGREEMENT

SENIOR NOTES

The 2019 Notes

On February 27, 2019, we entered into an indenture (the "2019 Indenture") pursuant to which we issued notes in a principal amount of US\$160,000,000 (the "Original 2019 Notes"). On March 15, 2019, we issued additional notes under the 2019 Indenture in a principal amount of US\$295,000,000 (the "Additional 2019 Notes") to be consolidated and form a single series with the Original 2019 Notes. As of the date of this offering memorandum, we had a total of US\$455.0 million principal amount of the 2019 Notes outstanding.

Guarantees

Each of the Subsidiary Guarantors (as defined under the 2019 Indenture) (other than New Non-Guarantor Restricted Subsidiaries) agreed to, jointly and severally, guarantee the due and punctual payment of the principal of, premium, if any, and interest on, and all other amounts payable under, the 2019 Notes.

The initial Subsidiary Guarantors consisted of all the Restricted Subsidiaries (as defined under the 2019 Indenture) other than those Restricted Subsidiaries organized under the laws of the PRC.

Under certain circumstances and subject to certain conditions, a Subsidiary Guarantee required to be provided by a subsidiary of the Company may be replaced by a JV Subsidiary Guarantee (as defined under the 2019 Indenture).

Interest

The Original 2019 Notes bore interest from and including June 7, 2018 at the rate of 13.5% per annum, payable semi-annually in arrears. The Additional 2019 Notes bore interest from March 15, 2019 at the rate of 13.5% per annum, payable semi-annually arrears on February 27 and August 27 of each year, beginning August 27, 2019.

Covenants

The 2019 Notes, the 2019 Indenture governing the 2019 Notes and the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any) (as defined under the 2019 Indenture) limit our ability and the ability of our Restricted Subsidiaries to, among other things:

- incur additional indebtedness and issue disqualified or preferred stock;
- declare or pay dividends on our capital stock or purchase or redeem capital stock;
- make investments or other specified restricted payments;
- issue or sell capital stock of Restricted Subsidiaries;
- guarantee indebtedness of Restricted Subsidiaries;
- sell assets;
- create liens;
- enter into sale and leaseback transactions;
- enter into agreements that restrict the Restricted Subsidiaries' ability to pay dividends, transfer assets or make intercompany loans;
- enter into transactions with shareholders or affiliates; and
- effect a consolidation or merger.

Events of Default

The 2019 Indenture contains certain customary events of default. If an event of default occurs and is continuing under the 2019 Indenture, the trustee or the holders of at least 25% in aggregate principal amount of the 2019 Notes then outstanding, by written notice to the Company (and to the trustee if such

notice is given by the holders), may, and the trustee at the request of such holders shall (subject to being indemnified and/or secured by the holders to its satisfaction), declare the principal of, premium, if any, and accrued and unpaid interest on the 2019 Notes to be immediately due and payable.

Change of Control

Upon the occurrence of certain events of change of control, we must make an offer to repurchase all the 2019 Notes outstanding at a purchase price equal to 101% of their principal amount, plus any accrued and unpaid interest.

Maturity and Redemption

The maturity date of the 2019 Notes is February 27, 2022. At any time and from time to time prior to February 27, 2022, we may redeem up to 35% of the 2019 Notes, at a redemption price of 113.5% of the principal amount of the 2019 Notes plus accrued and unpaid interest, if any, with the proceeds from sales of certain kinds of the Company's capital stock, subject to certain restrictions.

Proposed Amendments

Concurrent with this offering, we are soliciting consents from Eligible Holders (as defined in the Exchange Offer and Consent Solicitation Memorandum) of the outstanding 2019 Notes to make certain amendments to the 2019 Notes Indenture, including (i) elimination of certain restrictive covenants relating to liens and (ii) alignment of certain restrictive covenants relating to the affiliate transactions with the terms of the Notes, which is being made pursuant to the Exchange Offer and Consent Solicitation Memorandum.

CORPORATE BONDS

On September 22, 2016, the Group issued domestic corporate bonds by way of private placement in the PRC ("2016 Issue") with a principal amount of RMB1,000,000,000, bearing interest at the coupon rate of 5.30% *per annum* payable annually, and has a term of 5 years. The Group is entitled to adjust or not adjust the coupon rate at the end of the third year with the right of redemption exercisable by the holders.

According to the terms and conditions of the 2016 Issue, the Group has the right to adjust the coupon rate for the fourth and fifth year at the end of the third year, by giving a 30 days' notice to the bondholders before the third annual interest payment day. Bondholders may at its option require the Group to redeem the bonds. The remaining bonds will be subject to the adjusted interest rate until the maturity date. The effective interest rate of the 2016 Issue is approximately 5.47% *per annum*.

On November 11, 2015, the Group has issued its first tranche of domestic corporate bonds to the public in the PRC ("First Tranche Issue") with a principal amount of RMB2,000,000,000, bearing interest at the coupon rate of 7.25% *per annum* payable annually, and has a term of 5 years. On December 22, 2015, the Group has issued the second tranche of domestic corporate bonds to the public in the PRC ("Second Tranche Issue") with a principal amount of RMB1,000,000,000, bearing interest at the coupon rate of 7.47% *per annum*, payable annually, and has a term of 5 years. The Group is entitled to adjust or not adjust the coupon rate at the end of the third year with the right of redemption exercisable by the holders. The corporate bonds of First Tranche Issue and Second Tranche Issue are collectively referred as "2015 Corporate Bonds".

According to the terms and conditions of the 2015 Corporate Bonds, the Group has the right to adjust the coupon rate for the fourth and fifth year at the end of the third year, by giving a 30 days' notice to the bondholders before November 10 and December 21, 2018 for the First Tranche Issue and the Second Tranche Issue respectively. At the same time, the bondholders may at its option require the Group to redeem the bonds at a redemption price equal to 100% of the principal plus accrued and unpaid

interest to such redemption date. The remaining bonds will be subject to the adjusted interest rate until the maturity date. The effective interest rate of the 2015 Corporate Bonds is approximately 7.61% and 7.64% *per annum* respectively after the adjustment for transaction costs.

| | Total |
|---|----------------|
| | RMB'000 |
| Carrying amount as of January 1, 2020 | 565,787 |
| Effective interest recognized | 22,936 |
| Carrying amount as of June 30, 2020. | <u>588,723</u> |

Subsequent to June 30, 2020 and as of November 30, 2020, we repaid corporate bonds in the aggregate amount of RMB58.3 million (US\$8.3 million).

TRUST AND OTHER FINANCINGS

We have obtained, from time to time, secured and unsecured trust and other financings from a number of trust companies and other lenders in the PRC.

Overview of Trust and Other Financing Arrangements

In addition to bank loans, PRC companies, particularly property developers, may obtain alternative financing under trust financing arrangements. Trust financing arrangements are funding arrangements provided by trust funds, which are domestic funds established and managed by trust financing companies registered with the CBRC that act as trustees of these funds. Only investors who satisfy certain criteria under the “Measures for the Administration of Trust Companies’ Trust Plans of Assembled Funds” (《信託公司集合資金信託計劃管理辦法》) issued by the CBRC on February 4, 2009, as amended, may invest in these trust funds.

Trust financing is an authorized form of financing transaction under PRC laws. Trust financing arrangements are a common source of funds for property developers in the PRC and are available to PRC property developers and other PRC companies in various forms, including equity transfers, capital injections, equity acquisitions, shareholder loans, or secured loans granted by trust financing companies acting as trustees of the respective trust funds. A trust financing company may enter into secured loan arrangements with the borrowing company consisting of a combination of agreements involving equity pledges or security interest, guarantees, capital injections, equity transfers, repurchases, loan assignments, and/or other security in the form of assignments of rental income, sales revenue and other income generated from the relevant project company. As of June 30, 2020, we had three outstanding trust and other financing arrangements with China Huarong Asset Management Co., Ltd. (中國華融資產管理股份有限公司), China Great Wall Asset Management Co., Ltd. (中國長城資產管理股份有限公司) and Zhongrong International Trust Co., Ltd. (中融國際信託有限公司), all of which are independent third parties, entered into in the ordinary course of business to finance our operations. Compared with bank loans, trust financings offer greater flexibility. While drawdowns on bank loans usually depend on actual construction progress, drawdowns on trust financings may be made in full in one or multiple installments as agreed with the relevant trust companies. However, we have to bear higher financing costs due to higher interest rates under these trust financing arrangements. The covenants we give under our trust financing arrangements are consistent in all material respects with, and are not materially more favorable than those we customarily give to banks for our bank loans. There is no guarantee that we will be able to enter into these arrangements, if needed, in the future on favorable terms or at all.

Key Terms of the Trust and Other Financing Arrangements

Our trust and other financings typically have terms ranging from 12 months to 36 months. As of June 30, 2020, the aggregate outstanding amount under these financings totaled approximately RMB3,945.4 million (US\$558.4 million), of which RMB1,263.4 million (US\$178.8 million) was due within one year and RMB2,682.0 million (US\$379.6 million) was due after one year. Subsequent to June 30, 2020 and as of November 30, 2020, we incurred additional trust and other financing arrangements in the aggregate amount of RMB490 million (US\$69.4 million), and repaid trust financings in the aggregate amount of RMB428 million (US\$60.6 million).

Interest

Most of the principal amounts outstanding under our trust and other financing arrangements bear interest at fixed rates, ranging from 6.50% to 12.35% *per annum* as of June 30, 2020.

Covenants

Under our trust financing arrangements, our subsidiary borrowers have agreed, among other things, not to take the following actions without first obtaining the lenders' prior consent:

- incur additional borrowings or create encumbrances on any part of its property or assets or deal with its assets in a way that may adversely affect its ability to repay the loans;
- declare and/or pay dividends;
- dissolve, liquidate or establish a subsidiary;
- make any major changes to its corporate structures, such as entering into joint ventures, mergers, spin-off, lease, acquisitions and reorganizations or change its status, such as liquidation and dissolution, or other activities that may adversely affect its ability to repay the loans; and
- engage in any investment and financing activities.

Guarantee and Security

Most of our trust financing arrangements are secured and generally require (i) the equity interests in, or the land use rights or properties held by, some of our PRC subsidiaries, such as Langfang Guoxing, to be pledged and (ii) guarantees to be provided by some of our PRC subsidiaries, to the trust financing company (as trustee of the respective trust fund) as security for the loans.

COMMERCIAL MORTGAGE BACKED SECURITIES

Glory Xingye entered into a commercial mortgage backed securities (“CMBS”) arrangement with Shenzhen Qianhai Nanfang Dingcheng Factoring Company Limited (深圳市前海南方鼎程保理有限公司) (“Dingcheng”), a PRC factoring company, to act as its primary servicer. Pursuant to the CMBS, the current and future operating income, including but not limited to the rental receivables, of certain commercial properties under the operation of Glory Xinye, such as Beijing Hademen Center, are transferred to Dingcheng, which through a property trust issues a series of bonds that vary in yield, payment priority and repayment schedule. The trustee under the CMBS is Xibu Trust Company Limited (西部信託有限公司). On October 15, 2018, the CMBS was formally established and listed on the Beijing Financial Assets Exchange (the “BFA Exchange”) with three bond classes for an aggregate principal amount of RMB4,110.0 million and a term of 18 years, amongst which RMB3,400.0 million was preferred A class securities and RMB700.0 million was preferred B class securities issued to qualified investors of the BFA Exchange, and the remaining RMB10.0 million was subordinate securities of unrated class purchased by Shantou Garden Group Co., Ltd. (汕頭花園集團有限公司) as original equity holder. The CMBS is secured by our certain property projects and the payment/repayment commitment made by Glory Xinye and us for credit enhancement. In February 2020, we swapped the CMBS to a loan from Bank of Beijing and Bank of Communications with an annual interest rate of 4.90%.

DESCRIPTION OF THE NOTES

For purposes of this “Description of the Notes”, the term “**Company**” refers only to Guorui Properties Limited (incorporated under the name of “Glory Land Company Limited (國瑞置業有限公司)” in the Cayman Islands and carrying on business in Hong Kong as “Guorui Properties Limited”) and any successor obligor on the Notes, and not to any of its subsidiaries. Each Subsidiary of the Company which guarantees the Notes other than a JV Subsidiary Guarantor (as defined herein) is referred to as a “**Subsidiary Guarantor**”, and each such guarantee is referred to as a “**Subsidiary Guarantee**.” Each Subsidiary of the Company that in the future provides a JV Subsidiary Guarantee is referred to as a “**JV Subsidiary Guarantor**.”

The Notes are to be issued under an indenture (the “**Indenture**”), to be dated as of the Original Issue Date, among the Company, the Subsidiary Guarantors, as guarantors, and Citicorp International Limited, as trustee (the “**Trustee**”) and as collateral agent (the “**Collateral Agent**”).

The following is a summary of certain provisions of the Indenture, the Notes, the Subsidiary Guarantees, the JV Subsidiary Guarantees, the Security Documents and the Personal Guarantees. This summary does not purport to be complete and is qualified in its entirety by reference to all of the provisions of the Indenture, the Notes, the Subsidiary Guarantees, the JV Subsidiary Guarantees, the Security Documents and the Personal Guarantees. It does not restate those agreements in their entirety. Whenever particular sections or defined terms of the Indenture not otherwise defined herein are referred to, such sections or defined terms are incorporated herein by reference. Copies of the Indenture, the Security Documents and the Personal Guarantees will be available (upon reasonable advance notice being given to the Trustee) for inspection on or after the Original Issue Date during normal business hours at the corporate trust office of the Trustee at 20/F, Citi Tower, One Bay East, 83 Hoi Bun Road, Kwun Tong, Kowloon.

Brief Description of the Notes

The Notes are:

- general obligations of the Company;
- senior in right of payment to any existing and future obligations of the Company expressly subordinated in right of payment to the Notes;
- senior in right of payment to any existing and future obligations of (i) any Pledge Entity (as defined below) or (ii) to which any assets held by any Pledge Entity is subject, in each case that are owed to the Company or any of its Subsidiaries;
- at least *pari passu* in right of payment with all unsubordinated Indebtedness of the Company (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law);
- guaranteed by the Subsidiary Guarantors and the JV Subsidiary Guarantors (if any) on a senior basis, subject to the limitations described below under the caption “— The Subsidiary Guarantees and the JV Subsidiary Guarantees” and in “Risk Factors — Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees, the Collateral and the Personal Guarantees”;
- guaranteed by the Personal Guarantors subject to the limitations described below under the caption “— Personal Guarantees” and in “Risk Factors — Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees, the Collateral and the Personal Guarantees”;

- effectively subordinated to the existing and future secured obligations (if any) of the Company, the Subsidiary Guarantors and the JV Subsidiary Guarantors, to the extent of the value of the collateral serving as security therefor (other than the Collateral); and
- other than as described above with respect to certain obligations of the Pledge Entities, effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries (as defined below).

The Company will, and will cause its Subsidiaries to, make any existing and future obligations of any Pledge Entity or to which any assets held by any Pledge Entity is subject that are owed to the Company or any such Subsidiary contractually subordinated in right of payment to the Notes, the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Personal Guarantees.

In addition, subject to the limitations described in “Risk Factors — Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees, the Collateral and the Personal Guarantees,” the Notes will be secured by a pledge of the Collateral as described below under “— Security” and will:

- be entitled to the benefit of a Lien on the Collateral (subject to any Permitted Lien specified in clause (1) or (30) of the definition of “Permitted Liens”); and
- rank effectively senior in right of payment to the unsecured obligations of the Company to the extent of the value of the Collateral (subject to any priority rights of such unsecured obligations pursuant to applicable law).

The Notes will mature on _____, 2024 unless earlier redeemed or repurchased pursuant to the terms thereof and the Indenture.

The Indenture allows additional Notes to be issued from time to time (the “**Additional Notes**”), subject to certain limitations described under “— Further Issues.” Unless the context requires otherwise, references to the “Notes” for all purposes of the Indenture and this “Description of the Notes” include any Additional Notes that are actually issued.

The Notes will bear interest at 14.25% *per annum* from the Original Issue Date or from the most recent interest payment date to which interest has been paid or duly provided for, payable semi-annually in arrears on _____ and _____ of each year (each an “**Interest Payment Date**”), commencing on _____, 2021. Interest on the Notes will be paid to Holders of record at the close of business on the fifteenth day immediately preceding an Interest Payment Date (the “**Record Date**”), notwithstanding any transfer, exchange or cancellation thereof after a Record Date and prior to the immediately following Interest Payment Date. If interest is required to be calculated for a period of less than one year, it will be calculated on the basis of a 360-day year comprised of twelve 30-day months.

Except as described under “Optional Redemption”, “Redemption for Taxation Reasons”, and otherwise provided in the Indenture, the Notes may not be redeemed prior to maturity (unless they have been repurchased by the Company).

In any case in which the date of the payment of principal of, premium on or interest on the Notes is not a Business Day in the relevant place of payment or in the place of business of the Paying Agent, then payment of such principal, premium or interest need not be made on such date but may be made on the next succeeding Business Day. Any payment made on such Business Day shall have the same force and effect as if made on the date on which such payment is due and no interest on the Notes shall accrue in respect of such delay.

The Notes will be issued only in fully registered form, without coupons, in minimum denominations of US\$200,000 and integral multiples of US\$1,000 in excess thereof. No service charge will be made for any registration of transfer or exchange of the Notes, but the Company may require payment of a sum sufficient to cover any transfer tax or other similar governmental charge payable in connection therewith.

All payments on the Notes will be made in U.S. dollars by the Company at the office or agency of the Company maintained for that purpose (which initially will be the office of the Paying Agent (as defined below), currently located at c/o Citibank, N.A., Dublin Branch, 1 North Wall Quay, Dublin 1, Ireland by wire transfer of immediately available funds to the account specified by the Holder thereof and the Notes may be presented for registration of transfer or exchange at such office or agency. Interest payable on the Notes held through Euroclear or Clearstream will be available to Euroclear or Clearstream participants on the Business Day following payment thereof. Notwithstanding the foregoing, so long as the Notes are represented by a global note held on behalf of Euroclear, Clearstream or any other clearing system, each payment in respect of the Notes will be made to the person shown as the Holder in the Note register at the close of business of the relevant clearing system on the Clearing System Business Day before the due date for such payments, where “**Clearing System Business Day**” means a weekday (Monday to Friday, inclusive) except December 25 and January 1.

The Subsidiary Guarantees and JV Subsidiary Guarantees

The initial Subsidiary Guarantors that will execute the Indenture on the Original Issue Date will only consist of Glory (HK) Investment Limited (國瑞(香港)投資有限公司), All Affluent Holdings Limited, State Wealth Holdings Limited, Well Ample Holdings Limited, All Affluent Holdings (HK) Limited (通裕控股(香港)有限公司), State Wealth Holdings (HK) Limited (國豐控股(香港)有限公司) and Well Ample Holdings (HK) Limited (國益控股(香港)有限公司). The initial Subsidiary Guarantors are holding companies that do not have significant operations.

No future Restricted Subsidiaries organized under the laws of the PRC will provide a Subsidiary Guarantee or JV Subsidiary Guarantee at any time in the future. Although the Indenture contains limitations on the amount of additional Indebtedness that Non-Guarantor Subsidiaries (defined below) may incur, the amount of such additional Indebtedness could be substantial. In the event of a bankruptcy, liquidation or reorganization of any Non-Guarantor Subsidiary, the Non-Guarantor Subsidiaries will pay the holders of their debt and their trade creditors before they will be able to distribute any of their assets to the Company.

The Company will cause each of its future Restricted Subsidiaries (other than Persons organized under the laws of the PRC), as soon as practicable after such Person becomes a Restricted Subsidiary, to execute and deliver to the Trustee a supplemental indenture to the Indenture pursuant to which such Restricted Subsidiary will guarantee the payment of the Notes as either a Subsidiary Guarantor or a JV Subsidiary Guarantor. Notwithstanding the foregoing sentence, the Company may elect to have any future Restricted Subsidiary organized outside the PRC not provide a Subsidiary Guarantee or a JV Subsidiary Guarantee (Restricted Subsidiaries other than those organized under the laws of the PRC that provide neither a Subsidiary Guarantee nor a JV Subsidiary Guarantee in accordance with the Indenture, the “**Non-Guarantor Subsidiaries**”) at the time such entity becomes a Restricted Subsidiary; *provided* that, after giving effect to the Consolidated Assets of such Restricted Subsidiary, the Consolidated Assets of all Restricted Subsidiaries organized outside the PRC that are neither a Subsidiary Guarantor nor a JV Subsidiary Guarantor do not account for more than 15% of the Total Assets of the Company.

Each Restricted Subsidiary that guarantees the Notes after the Original Issue Date other than a JV Subsidiary Guarantor is referred to as a “**Future Subsidiary Guarantor**” and upon execution of the applicable supplemental indenture to the Indenture will be a “**Subsidiary Guarantor.**”

In the case of a future Restricted Subsidiary (or in the case of (iii)(y) below, a Person proposed to become a Restricted Subsidiary) (i) that is, or is proposed by the Company or any of its Restricted Subsidiaries to be, established after the Original Issue Date, (ii) that is organized in any jurisdiction other than the PRC and (iii) in respect of which the Company or any of its Restricted Subsidiaries (x) is proposing to sell, whether through the sale of existing shares or the issuance of new shares, no less than 20% and no more than 49.9% of the Capital Stock of such Restricted Subsidiary or (y) is proposing to purchase no less than 50.1% of the Capital Stock of an Independent Third Party and designate such entity as a Restricted Subsidiary following such a purchase, the Company may, promptly and in any event within 30 days after the consummation of such sale or purchase, cause the provision of a JV Subsidiary Guarantee instead of a Subsidiary Guarantee for (a) such Restricted Subsidiary and (b) the Restricted Subsidiaries of such Restricted Subsidiary that are organized in any jurisdiction other than the PRC, if the following conditions, in the case of both (a) and (b), are satisfied:

- as of the date of execution of the JV Subsidiary Guarantee, no document exists that is binding on the Company or any of the Restricted Subsidiaries that would have the effect of (a) prohibiting the Company or any of the Restricted Subsidiaries from providing such JV Subsidiary Guarantee or (b) requiring the Company or any of the Restricted Subsidiaries to deliver or keep in place a guarantee on terms that are more favorable to the recipients of such guarantee than the JV Subsidiary Guarantee;
- such sale or issuance of Capital Stock is made to, or such purchase of Capital Stock is purchased from, an Independent Third Party at a consideration that is not less than (in the case of a sale or issuance) or no more than (in the case of a purchase) the appraised value of such Capital Stock by an independent appraisal firm of recognized international standing appointed by the Company; *provided* that, no such appraisal is required if the sale, issuance or purchase of Capital Stock is made within 180 days after land use rights are acquired by such Restricted Subsidiary or any Restricted Subsidiary of such JV Subsidiary Guarantor;
- all capital contributions (by way of transfer of cash or other property or any payment for property or services for the use of others or otherwise) to be made into a JV Subsidiary Guarantor from the date of the sale of existing Capital Stock or issuance of new Capital Stock or purchase of Capital Stock as referred to above, shall be made directly or by contribution of assets or services having an equivalent Fair Market Value by (i) the Company and its Restricted Subsidiaries and (ii) such Independent Third Party that purchased or subscribed for Capital Stock in the JV Subsidiary Guarantor in proportion to their respective direct or indirect ownership percentages of the Capital Stock of such JV Subsidiary Guarantor or on a basis more favorable to the Company;
- concurrently with providing the JV Subsidiary Guarantee, the Company shall or shall cause such JV Subsidiary Guarantor to deliver to the Trustee:
 - (i) (A) a duly executed JV Subsidiary Guarantee of such JV Subsidiary Guarantor (the “JV Subsidiary Guarantee”) and each Restricted Subsidiary of such JV Subsidiary Guarantor that is not organized under the laws of the PRC, and (B) a duly executed supplemental indenture to the Indenture pursuant to which such JV Subsidiary Guarantor and each Restricted Subsidiary of such JV Subsidiary Guarantor will guarantee the payment of the Notes, each of which provides, among other things, that the aggregate claims of the Trustee under such JV Subsidiary Guarantee will be limited to the JV Entitlement Amount;
 - (ii) an Officers’ Certificate certifying a copy of the Board Resolution to the effect that such JV Subsidiary Guarantee has been approved by a majority of the disinterested members of the Board of Directors; and

- (iii) a legal opinion by a law firm of recognized international standing confirming that under New York law each such JV Subsidiary Guarantee is valid, binding and enforceable against the applicable JV Subsidiary Guarantor providing such JV Subsidiary Guarantee (subject to customary qualifications and assumptions).

As of June 30, 2020, the Company and its subsidiaries had total consolidated indebtedness (which includes bank loans and other loans from non-bank financial institutions, each secured, corporate bonds and senior notes) of approximately RMB27,663.8 million (US\$3,915.6 million).

The Subsidiary Guarantee of each Subsidiary Guarantor:

- is a general obligation of such Subsidiary Guarantor;
- is effectively subordinated to secured obligations of such Subsidiary Guarantor, to the extent of the value of the collateral serving as security therefor (other than the Collateral if applicable);
- is senior in right of payment to all future obligations of such Subsidiary Guarantor expressly subordinated in right of payment to such Subsidiary Guarantee;
- is senior in right of payment to any existing and future obligations (i) of any Pledge Entity (as defined below) or (ii) to which any assets held by any Pledge Entity is subject, in each case that are owed to the Company or any of its Subsidiaries;
- ranks at least *pari passu* with all unsubordinated Indebtedness of such Subsidiary Guarantor (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law); and
- other than as described above with respect to certain obligations of the Pledge Entities, is effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries, which are Subsidiaries of such Subsidiary Guarantor.

If any is provided, the JV Subsidiary Guarantee of each JV Subsidiary Guarantor:

- will be a general obligation of such JV Subsidiary Guarantor;
- will be senior in right of payment to any existing and future obligations (i) of any Pledge Entity (as defined below) or (ii) to which any assets held by any Pledge Entity is subject, in each case that are owed to the Company or any of its Subsidiaries;
- will be enforceable only up to the JV Entitlement Amount;
- will be effectively subordinated to secured obligations of such JV Subsidiary Guarantor, to the extent of the value of the assets serving as security therefor;
- will be limited to the JV Entitlement Amount, and will be senior in right of payment to all future obligations of such JV Subsidiary Guarantor expressly subordinated in right of payment to such JV Subsidiary Guarantee; and
- will be limited to the JV Entitlement Amount, and will rank at least *pari passu* with all other unsecured and unsubordinated Indebtedness of such JV Subsidiary Guarantor (subject to any priority rights of such unsecured and unsubordinated Indebtedness pursuant to applicable law).

In addition, subject to the limitations described in “Risk Factors — Risks Relating to the Subsidiary Guarantees, JV Subsidiary Guarantees, the Collateral and the Personal Guarantees,” the Subsidiary Guarantees of the Pledgors will be secured by a pledge of the Collateral as described below under “— Security” and will:

- be entitled to the benefit of a Lien on the Collateral (subject to any Permitted Lien specified in clause (1) or (30) of the definition of “Permitted Liens”); and
- rank effectively senior in right of payment to their unsecured obligations to the extent of the value of the Collateral (subject to any priority rights of such unsecured obligations pursuant to applicable law).

The JV Subsidiary Guarantee of each JV Subsidiary Guarantor will not be secured.

Each of the Subsidiary Guarantors and JV Subsidiary Guarantors (if any) will jointly and severally guarantee the due and punctual payment of the principal of, premium, if any, and interest on, and all other amounts payable under, the Notes and the Indenture; *provided* that any JV Subsidiary Guarantee will be limited to the JV Entitlement Amount. The Subsidiary Guarantors and JV Subsidiary Guarantors will (1) agree that their respective obligations under the Subsidiary Guarantees and JV Subsidiary Guarantees, as the case may be, will be enforceable irrespective of any invalidity, irregularity or unenforceability of the Notes or the Indenture and (2) waive their respective rights to require the Trustee to pursue or exhaust its legal or equitable remedies against the Company prior to exercising its rights under the Subsidiary Guarantees and the JV Subsidiary Guarantees, as the case may be. Moreover, if at any time any amount paid under a Note or the Indenture is rescinded or must otherwise be repaid or restored, the rights of the Holders under the Subsidiary Guarantees and the JV Subsidiary Guarantees, as the case may be, will be reinstated with respect to such payment as though such payment had not been made. All payments under the Subsidiary Guarantees and the JV Subsidiary Guarantees, as the case may be, are required to be made in U.S. dollars.

Under the Indenture, and any supplemental indenture to the Indenture, as applicable,

- each Subsidiary Guarantee will be limited to an amount not to exceed the maximum amount that can be guaranteed by the applicable Subsidiary Guarantor without rendering the Subsidiary Guarantee, as it relates to such Subsidiary Guarantor, voidable under applicable law relating to fraudulent conveyance or fraudulent transfer or similar laws affecting the rights of creditors generally; and
- each JV Subsidiary Guarantee will be limited to an amount which is the lower of (i) the JV Entitlement Amount and (ii) an amount not to exceed the maximum amount that can be guaranteed by the applicable JV Subsidiary Guarantor without rendering the JV Subsidiary Guarantee, as it relates to such JV Subsidiary Guarantor, voidable under applicable law relating to fraudulent conveyance or fraudulent transfer or similar laws affecting the rights of creditors generally.

If a Subsidiary Guarantee or JV Subsidiary Guarantee were to be rendered voidable, it could be subordinated by a court to all other indebtedness (including guarantees and other contingent liabilities) of the applicable Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, and, depending on the amount of such indebtedness, a Subsidiary Guarantor’s liability on its Subsidiary Guarantee or a JV Subsidiary Guarantor’s liability on its JV Subsidiary Guarantee, as the case may be, could in each case be reduced to zero.

The obligations of each Subsidiary Guarantor under its Subsidiary Guarantee may be limited, or possibly invalid, under applicable laws. Similarly, the obligations of each JV Subsidiary Guarantor under its JV Subsidiary Guarantee may be limited, or possibly invalid, under applicable laws. See “Risk Factors — Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees, the Collateral and the Personal Guarantees — The Subsidiary Guarantees or JV Subsidiary Guarantees may be challenged under applicable insolvency or fraudulent transfer laws, which could impair the enforceability of the Subsidiary Guarantees or JV Subsidiary Guarantees.”

Release of the Subsidiary Guarantees and JV Subsidiary Guarantees

A Subsidiary Guarantee given by a Subsidiary Guarantor and a JV Subsidiary Guarantee given by a JV Subsidiary Guarantor may be released in certain circumstances, including:

- upon repayment in full of the Notes;
- upon a defeasance as described under “— Defeasance — Defeasance and Discharge”;
- upon the designation by the Company of a Subsidiary Guarantor or a JV Subsidiary Guarantor, as the case may be, as an Unrestricted Subsidiary in compliance with the terms of the Indenture;
- upon the sale, merger or disposition of a Subsidiary Guarantor or a JV Subsidiary Guarantor, as the case may be, in compliance with the terms of the Indenture (including the covenants described under “— Certain Covenants — Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries”, “— Certain Covenants — Limitation on Asset Sales” and “— Consolidation, Merger and Sale of Assets”) resulting in such Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, no longer being a Restricted Subsidiary, so long as (1) such Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, is simultaneously released from its obligations in respect of any of the Company’s other Indebtedness or any Indebtedness of any other Restricted Subsidiary and (2) the proceeds from such sale or disposition are used for the purposes permitted or required by the Indenture;
- upon the merger or consolidation of any Subsidiary Guarantor with and into the Company, a Subsidiary Guarantor or a JV Subsidiary Guarantor (or a Restricted Subsidiary that becomes a Subsidiary Guarantor concurrently with the transaction) that is the surviving Person in such merger or consolidation, or upon the liquidation of such Subsidiary Guarantor or JV Subsidiary Guarantor following the transfer of all or substantially all of its assets to the Company or a Subsidiary Guarantor or a JV Subsidiary Guarantor (or a Restricted Subsidiary that becomes a Subsidiary Guarantor or a JV Subsidiary Guarantor concurrently with the transaction);
- in the case of a Subsidiary Guarantee, upon the replacement of a Subsidiary Guarantee with a JV Subsidiary Guarantee; or
- in the case of Subsidiary Guarantor or a JV Subsidiary Guarantor that becomes a Non-Guarantor Subsidiary, in compliance with the terms of the Indenture; in the case of a Subsidiary Guarantor with respect to which the Company or any of its Restricted Subsidiaries is proposing to sell or has sold, whether through the sale of existing Capital Stock or the issuance of new Capital Stock, no less than 20% of the Capital Stock of such Subsidiary Guarantor, the Subsidiary Guarantees provided by such Subsidiary Guarantor and each of its Restricted Subsidiaries organized outside the PRC shall be released, and upon such release such Subsidiary Guarantor and its Restricted Subsidiaries organized outside the PRC will become Non-Guarantor Subsidiaries (such that each such Non-Guarantor Subsidiary will no longer Guarantee the Notes); *provided* that, after the release of such Subsidiary Guarantees, the Consolidated Assets of all Restricted Subsidiaries organized outside the PRC that are neither Subsidiary Guarantors nor JV Subsidiary Guarantors (including the new Non-Guarantor Subsidiaries) do not account for more than 15% of the Total Assets of the Company; *provided* that a Subsidiary Guarantee of a Subsidiary Guarantor may only be released pursuant to this paragraph if as of the date of such proposed release, no document exists that is binding on the Company or any of the Restricted Subsidiaries that would have the effect of (a) prohibiting the Company or any of the Restricted Subsidiaries from releasing such Subsidiary Guarantee or (b) requiring the Company or such Subsidiary Guarantor to deliver or keep in place a guarantee of other Indebtedness of the Company by such Subsidiary Guarantor.

As of the date of the Indenture, all of the Company's Subsidiaries, except Guoshang Holdings Limited, Guochi Holdings Limited, Guoyang Holdings Limited, Beijing Ruixin Management Limited, Glory Xingye (Beijing) Investment Limited, Guoxing International Holdings Limited, Guoxing (HK) International Holdings Limited, Beijing Daqian Nade Information Consulting Limited and Beijing Guoxing Wanxun Technology and Trading Consulting Limited, will be "Restricted Subsidiaries." However, under the circumstances described below under the caption "— Certain covenants-Designation of Restricted and Unrestricted Subsidiaries," the Company will be permitted to designate certain of its Subsidiaries as "Unrestricted Subsidiaries." The Company's Unrestricted Subsidiaries will generally not be subject to the restrictive covenants in the Indenture. The Company's Unrestricted Subsidiaries will not Guarantee the Notes.

Replacement of Subsidiary Guarantees with JV Subsidiary Guarantees

A Subsidiary Guarantee given by a Subsidiary Guarantor may be released following the sale or issuance by the Company or any of its Restricted Subsidiaries of Capital Stock in (a) such Subsidiary Guarantor or (b) any other Subsidiary Guarantor that, directly or indirectly, owns a majority of the Capital Stock of such Subsidiary Guarantor, in each case where such sale or issuance, whether through the sale of existing shares or the issuance of new shares, is for no less than 20% and no more than 49.9% of the issued Capital Stock of the relevant Subsidiary Guarantor, *provided* that the following conditions are satisfied or complied with:

- as of the date of such proposed release, no document exists that is binding on the Company or any of the Restricted Subsidiaries that would have the effect of (a) prohibiting the Company or any of the Restricted Subsidiaries from releasing such Subsidiary Guarantee, (b) prohibiting the Company or any of the Restricted Subsidiaries from providing such JV Subsidiary Guarantee, or (c) requiring the Company or any of the Restricted Subsidiaries to deliver or keep in force a replacement guarantee on terms that are more favorable to the recipients of such guarantee than the JV Subsidiary Guarantee;
- such sale or issuance of Capital Stock is made to an Independent Third Party at a consideration that is not less than the appraised value of such Capital Stock by an independent appraisal firm of recognized international standing appointed by the Company; *provided* that, no such appraisal is required if the sale or issuance of Capital Stock is made within 180 days after land use rights are acquired by such Subsidiary Guarantor or any Restricted Subsidiary of such Subsidiary Guarantor;
- all capital contributions (by way of transfer of cash or other property or any payment for property or services for the use of others or otherwise) to be made into a JV Subsidiary Guarantor from the date of the sale of existing Capital Stock or issuance of new Capital Stock as referred to above, shall be made directly or by contribution of assets or services having an equivalent Fair Market Value by (i) the Company and its Restricted Subsidiaries and (ii) such Independent Third Party that purchased or subscribed for Capital Stock in the JV Subsidiary Guarantor in proportion to their respective direct or indirect ownership percentages of the Capital Stock of such JV Subsidiary Guarantor, or on a basis more favorable to the Company;
- concurrently with the release of such Subsidiary Guarantee, the Company shall or shall cause such JV Subsidiary Guarantor to deliver to the Trustee:
 - (i) (A) a duly executed JV Subsidiary Guarantee of such JV Subsidiary Guarantor and each Restricted Subsidiary of such JV Subsidiary Guarantor that is not organized under the laws of the PRC and (B) a duly executed supplemental indenture to the Indenture pursuant to which such JV Subsidiary Guarantor will guarantee the payment of the Notes, each of which provides, among other things, that the aggregate claims of the Trustee under such JV Subsidiary Guarantee will be limited to the JV Entitlement Amount;

- (ii) an Officers' Certificate certifying a copy of a Board Resolution to the effect that such JV Subsidiary Guarantee has been approved by a majority of the disinterested members of the Board of Directors; and
- (iii) a legal opinion by a law firm of recognized international standing confirming that under New York law such JV Subsidiary Guarantee is valid, binding and enforceable against the JV Subsidiary Guarantor providing such JV Subsidiary Guarantee (subject to customary qualifications and assumptions).

Notwithstanding the foregoing paragraph, any such sale or issuance of the Capital Stock of the relevant Subsidiary Guarantor (including where such sale results in the relevant Subsidiary Guarantor ceasing to be a Restricted Subsidiary) will need to comply with the other covenants set forth in the Indenture, including, without limitation, the "Limitation on Asset Sales" and "Limitation on Restricted Payments" covenants.

Any Net Cash Proceeds from the sale of such Capital Stock shall be applied by the Company (or any Restricted Subsidiary) in accordance with the "Limitation on Asset Sales" covenant.

As of the date of the Indenture, all of the Company's Subsidiaries will be "Restricted Subsidiaries" except for those listed under "— Definition — Unrestricted Subsidiary." Under the circumstances described below under the caption "— Certain Covenants — Designation of Restricted and Unrestricted Subsidiaries", the Company will be permitted to designate certain of its Subsidiaries as "Unrestricted Subsidiaries." The Company's Unrestricted Subsidiaries will generally not be subject to the restrictive covenants in the Indenture. The Company's Unrestricted Subsidiaries will not Guarantee the Notes.

Security

Glory (HK) Investment Limited (國瑞(香港)投資有限公司) (the "**Pledgor A**") has agreed, for the benefit of the Holders, to pledge all Capital Stock of Langfang Guoxing Real Estate Development Co., Ltd. (廊坊國興房地產開發有限公司) (the "**Pledge Entity A**") now held or subsequently acquired by such Pledgor, and All Affluent Holdings (HK) Limited (通裕控股(香港)有限公司) (the "**Pledgor B**") and, together with the Pledgor A and, if applicable, any Additional Pledgor as provided below, the "**Pledgors**" and each a "**Pledgor**") has agreed, for the benefit of the Holders, to pledge all Capital Stock of Qidong Glory Properties Limited (啟東市國瑞置業有限公司) (the "**Pledge Entity B**") and, together with the Pledge Entity A and, if applicable, any Additional Pledge Entity as provided below, the "**Pledge Entities**" and each a "**Pledge Entity**") now held or subsequently acquired by such Pledgor, for the benefit of the Holders of the Notes (collectively, the "**Initial Collateral**") on a first-priority basis (subject to any Permitted Lien specified in clause (1) or (30) of the definition of "Permitted Liens") on the Original Issue Date in order to secure the obligations of the Company under the Notes and the Indenture and of each such Pledgor under its Subsidiary Guarantee.

The Company shall, or shall procure each of the Pledgors to, (i) file or cause to be filed with the State Administration for Market Regulation (國家市場監督管理總局) or its competent local counterpart ("**SAMR**") the relevant Security Document to which such Pledgor is a party and, in the case of the issuance of any Additional Note, any update (if required) on the application(s) submitted to SAMR in connection with the prior issuance(s) of the Notes (the "**SAMR Registration**") and obtain an equity interests pledge creation certificate issued by SAMR or any other documents evidencing the completion of registration or, in the case of the issuance of any Additional Note, update on registration issued by SAMR (the "**SAMR Registration Records**") within 30 PRC Business Days after the Original Issue Date or the issue date of the Additional Notes, as applicable, and (ii) within seven PRC Business Days after the completion of the SAMR Registration by such Pledgor, provide the Collateral Agent (with a copy to the Holders) with (x) an Officers' Certificate of the Company confirming the completion of the SAMR Registration; and (y) a certified true copy (certified by any attorney, public account or public notary in the PRC) of the relevant SAMR Registration Records.

The value of the Collateral is unlikely to be sufficient to satisfy the Company's obligations under the Notes and the Pledgors' obligations under their respective Subsidiary Guarantees, and the Collateral may be reduced or diluted under certain circumstances (except as otherwise provided in the Indenture), including the issuance of Additional Notes and the disposition of assets comprising the Collateral, subject to the terms of the Indenture. See "— Release of Security" and "Risk Factors — Risks Relating to the Subsidiary Guarantees, the JV Subsidiary Guarantees, the Collateral and the Personal Guarantees — The value of the Collateral is unlikely to be sufficient to satisfy our obligations under the Notes and/or the Subsidiary Guarantees."

The Company will appoint, at its own cost, an appraiser from the list of the Eligible Appraisers to conduct appraisal of the valuation of any and all assets held by each Pledge Entity as of the last day of each fiscal semi-annual period after the Original Issue Date (each, a "**Valuation Date**") and issue a valuation report (the "**Valuation Report**") for so long as any Note remains outstanding, with the first appraisal to be conducted on the assets held by each Pledge Entity as of June 30, 2021. For so long as any Note remains outstanding, the Company and the Pledgors shall cause the LTV Ratio not to exceed 80% at any time and on each of April 30 and September 30 immediately following a Valuation Date (the "**Certification Date**") deliver to the Trustee, with a copy to the Holders, an Officers' Certificate setting forth the calculation of the LTV Ratio as of such Valuation Date and certifying that the LTV Ratio does not exceed 80%, together with the Valuation Report issued by an Eligible Appraiser with respect to such Valuation Date (such certificate and Valuation Report to be provided at the Company's own cost), with the first such Officers' Certificate to be delivered as of September 30, 2021.

If, on any Certification Date, the LTV Ratio as determined in accordance with this paragraph exceeds 80%, the Company shall, as soon as practicable but in any event within 30 days after the Certification Date:

- (A) (i) redeem a portion of the outstanding Notes at a redemption price equal to 101% of the principal amount of the redeemed Notes and accrued and unpaid interest, if any, to (but not including) the redemption date; and/or
- (ii) pledge or cause to be pledged the Capital Stock of one or more other Subsidiaries of the Company (each, an "**Additional Pledge Entity**", the direct parent company of such Additional Pledge Entity, the "**Additional Pledgor**") to secure the obligations of the Company under the Notes and the Indenture and, if applicable, of each such Additional Pledgor under its Subsidiary Guarantee (collectively, the "Additional Collateral"),

such that after taking into account of such redemption and/or such Additional Pledge Entities for purposes of calculation the LTV Ratio, the LTV Ratio shall no longer exceed 80%; and

- (B) deliver to the Trustee, with a copy to the Holders, an Officers' Certificate setting forth the calculation of the LTV Ratio as of relevant Valuation Date, taking into account of the action(s) taken by the Company pursuant to clauses (A)(i) and/or (A)(ii) above, and certifying that the LTV Ratio does not exceed 80%, together with the Valuation Report issued by an Eligible Appraiser with respect to such Valuation Date, which shall, for the avoidance of doubt, include the valuation of any and all assets held by each Additional Pledge Entity if applicable (such certificate and Valuation Report to be provided at the Company's own cost).

There can be no assurance that the proceeds of any sale of the Collateral, in whole or in part, pursuant to the Indenture and the Security Documents following an Event of Default, would be sufficient to satisfy amounts due on the Notes or the Subsidiary Guarantee of each Pledgor. Some or all of the Collateral may be illiquid and may have no readily ascertainable market value. Accordingly, there can be no assurance that the Collateral would be sold in a timely manner or at all.

So long as no Payment Default has occurred and is continuing, and subject to the terms of the Security Documents and the Indenture, the Company and the Pledgors, as the case may be, will be entitled to exercise any and all voting rights in respect of Capital Stock constituting Collateral.

Except for a Permitted Lien specified in clause (1) or (30) of the definition of “Permitted Liens” and, with respect to the issued Capital Stock of the Pledge Entity A, other than any Permitted Lien specified in clause (11) of the definition of “Permitted Liens” (provided that such Permitted Lien specified in clause (11) is released within the time period and in the manner provided in the Yongqing Security Document), the Company will not, and will procure its Subsidiaries not to, Incur any other Indebtedness secured by all or any portion of the Collateral without the consent of each Holder of the Notes then outstanding.

Enforcement of Security

The first-priority Lien (subject to any Permitted Lien specified in clause (1) or (30) of the definition of “Permitted Liens”) securing the Notes and the Subsidiary Guarantees of the Pledgors will be granted to the Collateral Agent for itself and for the benefit of the Holders and the Trustee. Citicorp International Limited will act as the Collateral Agent under the Security Documents entered into on the Original Issue Date. The Collateral Agent will hold such Liens over the Collateral granted pursuant to the Security Documents with sole authority in accordance with the terms of the Security Documents. The Collateral Agent has agreed to act as secured party on behalf of the Secured Parties and to follow the written instructions provided to it under the Indenture and the Security Documents and to carry out certain other duties. The Trustee will give instructions to the Collateral Agent by itself or in accordance with instructions it will receive from the Holders under the Indenture.

The Indenture and/or the Security Documents will principally provide that, (i) at any time while the Notes are outstanding, the Collateral Agent has the exclusive right to manage and perform the terms of the Security Documents to which it is a party and (ii) upon the occurrence of an Event of Default under the Indenture, the Collateral Agent has, with respect to the Collateral granted to it, the exclusive right to exercise and enforce all privileges, rights and remedies thereunder as directed by the Trustee, acting on the written instruction of the Holders (subject to it being indemnified and/or secured and/or pre-funded to its satisfaction), including to take or retake control or possession of such Collateral and to hold, prepare for sale, process, lease, dispose of or liquidate such Collateral, subject in each case, to the terms and conditions of the Security Documents.

All payments received and all amounts held by the Collateral Agent in respect of the Collateral under the Security Documents will be applied as follows: *first*, to the Collateral Agent and the Trustee to the extent necessary to reimburse the Collateral Agent and the Trustee for any unpaid fees, costs and expenses (including expenses of its counsel) properly incurred in connection with the collection or distribution of such amounts held or realized or in connection with expenses properly incurred in enforcing all available remedies under the Security Documents and preserving the Collateral and all amounts for which the Collateral Agent and the Trustee are entitled to security and/or indemnification and/or pre-funding under the Security Documents; *second*, to the extent not reimbursed under the above paragraph, ratably to the Agents, to the extent necessary to reimburse the Agents for any unpaid fees, costs and expenses (including expenses of any paying agents, transfer agents, registrars or other agents in connection therewith appointed in connection with the foregoing and expenses of counsel) properly incurred under the Security Documents (or any other document in connection with the foregoing that such paying agents, transfer agents, registrars or other agents are party to) in connection with the collection or distribution of such amounts held or realized or in connection with expenses properly incurred in enforcing all available remedies under the Indenture and the Security Documents and preserving the Collateral and all indemnification payments for which the foregoing persons are entitled to under the Indenture and the Security Documents; *third*, to the Trustee for the benefit of the Holders ratably, inclusive of any properly incurred fees and expenses of the Holders and the principal, interest and premium on the Notes in accordance with the terms of the Indenture; and *fourth*, any surplus remaining after such payments will be paid to the Pledgors or to whomever may be lawfully entitled thereto.

The Collateral Agent may decline to expend its own funds, foreclose on the Collateral or exercise remedies available if it does not receive indemnification and/or pre-funding and/or security to its satisfaction. In addition, the Collateral Agent's ability to foreclose on the Collateral may be subject to lack of perfection, the consent of third parties, prior Liens and practical problems associated with the realization of the Collateral Agent's Liens on the Collateral. Neither the Trustee, the Collateral Agent nor any of their respective officers, directors, employees, attorneys or agents will be responsible or liable for the existence, genuineness, value or protection of any Collateral securing the Notes, for the legality, enforceability, effectiveness or sufficiency of the Security Documents for the creation, perfection, continuation, priority, sufficiency or protection of any of the Liens, or for any defect or deficiency as to any such matters, or for any failure to demand, collect, foreclose or realize upon or otherwise enforce any of the Liens or Security Documents or any delay in doing so.

The Security Documents will provide that the Company and each of the Pledgors will indemnify the Collateral Agent for all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind imposed against the Collateral Agent arising out of the Security Documents except to the extent that any of the foregoing are finally judicially determined to have resulted from the gross negligence, fraud or willful misconduct of the Collateral Agent.

Release of Collateral

The security created in respect of the Collateral granted under the Security Documents may be released in certain circumstances, including:

- upon repayment in full of the Notes; and
- upon defeasance and discharge of the Notes as provided below under “— Defeasance — Defeasance and Discharge.”

Personal Guarantees

Each of Mr. ZHANG Zhangsun, the controlling shareholder of the Company, and Ms. RUAN Wenjuan, the spouse of Mr. ZHANG Zhangsun (collectively, the “**Personal Guarantors**”), will provide a personal guarantee to the Notes pursuant to a personal guarantee agreement to be dated as of the Original Issue Date, governed by PRC law, in favor of the Trustee to jointly and severally guarantee the obligations of the Company under the Notes (each a “**Personal Guarantee**”). Each of the Personal Guarantors will agree to use his or her best efforts to obtain the Regulatory Approvals to the extent required with respect to the relevant Personal Guarantee. An Officers' Certificate of the Company delivered to the Trustee, with a copy to the Holders, setting out (i) the PRC Governmental Authorities which each of the Personal Guarantors has approached and (ii) a summary of the communication with such PRC Governmental Authorities, and certifying that such Personal Guarantor has used his or her best efforts to obtain the applicable Regulatory Approvals, shall be conclusive evidence of such best efforts and the relevant Personal Guarantor shall thereafter be fully discharged from his or her obligations under this paragraph to obtain the applicable Regulatory Approvals if he or she does not receive the applicable Regulatory Approvals after making such best efforts.

Further Issues

Subject to the covenants described below and in accordance with the terms of the Indenture, the Company may, from time to time, without notice to or the consent of the Holders, create and issue Additional Notes having the same terms and conditions as the Notes (including the benefit of the Subsidiary Guarantees, JV Subsidiary Guarantees, the Personal Guarantees and the Collateral) in all respects (or in all respects except for the issue date, issue price and the first payment of interest on them and, to the extent necessary, certain temporary securities law transfer restrictions) (a “**Further Issue**”) so that such Additional Notes may be consolidated and form a single class with the previously outstanding

Notes and vote together as one class on all matters with respect to the Notes; *provided* that the issuance of any such Additional Notes shall then be permitted under the “Limitation on Indebtedness and Preferred Stock”, the “Limitation on Liens” and the “— Security” covenants described below and the other provisions of the Indenture.

In addition, the issuance of any Additional Notes by the Company will be subject to the following conditions:

- the Additional Notes shall be guaranteed under the Indenture, the Subsidiary Guarantees, the JV Subsidiary Guarantees (if any) and the Personal Guarantees, and be secured by the Collateral under the Indenture and the Security Documents, to the same extent and on the same basis as the Notes outstanding on the date the Additional Notes are issued; and
- the Company shall have delivered to the Trustee an Officers’ Certificate and an Opinion of Counsel confirming that the issuance of the Additional Notes complies with the Indenture and is permitted by the Indenture.

Optional Redemption

At any time prior to _____, 20_____ the Company may at its option redeem the Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the redeemed Notes plus the Applicable Premium as of, and accrued and unpaid interest, if any, to (but not including) the redemption date. The Company will give not less than 30 days’ nor more than 60 days’ notice of any such redemption, to the Holders and the Trustee.

At any time and from time to time prior to _____, 20_____, the Company may redeem up to 35% of the aggregate principal amount of the Notes with the Net Cash Proceeds of one or more sales of Common Stock of the Company in an Equity Offering at a redemption price of 114.25% of the principal amount of the Notes redeemed, plus accrued and unpaid interest, if any, to (but not including) the redemption date; *provided* that at least 65% of the aggregate principal amount of the Notes originally issued on the Original Issue Date remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related Equity Offering. The Company will give not less than 30 days’ nor more than 60 days’ notice of any such redemption, to the Holders and the Trustee.

At any time on and from time to time after the date when no more than 10% of the aggregate principal amount of the Notes originally issued on the Original Issue Date remains outstanding, the Company may at its option redeem the Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the Notes plus accrued and unpaid interest, if any, to (but not including) the redemption date. The Company will give not less than 30 days’ nor more than 60 days’ notice of any such redemption, to the Holders and the Trustee.

Selection and Notice

If less than all of the Notes are to be redeemed at any time, the Notes will be redeemed as follows:

- if the Notes are listed on any recognized securities exchange or are held through a clearing system, in compliance with the requirements of the principal recognized securities exchange on which the Notes are listed (if any) or the requirements of the clearing system; or
- if the Notes are not listed on any recognized securities exchange, on a pro rata basis (with adjustments to prevent fractional Notes).

Notices of redemption may, in the Company's discretion be subject to the satisfaction of one or more conditions precedent.

A Note of US\$200,000 in principal amount or less shall not be redeemed in part, and only Notes in multiples of US\$1,000 in excess thereof may be redeemed in part. If any Note is to be redeemed in part only, the notice of redemption relating to such Note will state the portion of the principal amount to be redeemed. With respect to any Certificated Notes, a new Note in principal amount equal to the unredeemed portion will be issued upon cancellation of the original Note. On and after the redemption date, interest will cease to accrue on Notes or portions of them called for redemption.

Repurchase of Notes by the Company at the Option of the Holders

Holder will have the right, at their option, to require the Company to repurchase for cash all of their Notes, or any portion of the principal thereof that is equal to US\$200,000 or integral multiples of US\$1,000 in excess thereof on _____, 20____ (the date that is 15 months after the Original Issue Date) (the "**Put Option Date**"). The Company will be required to repurchase any outstanding Notes for which a Holder delivers a written repurchase notice to the Paying Agent. This notice must be delivered during the period beginning at the open of business on the date 60 days immediately preceding the Put Option Date and ending at the close of business on the date 31 days immediately preceding the Put Option Date. If a repurchase notice is given and withdrawn during such period, the Issuer will not be obligated to repurchase the related Notes.

The repurchase price the Company is required to pay will be equal to 100% of the principal amount of the Notes to be repurchased, plus any accrued and unpaid interest to, but excluding, the Put Option Date; *provided* that the Company will pay the full amount of such accrued and unpaid interest not to the Holder submitting the Notes for repurchase on the Put Option Date but instead to the Holder of record at the close of business on the corresponding record date for the payment of interest.

On or before the date 60 days prior to the Put Option Date, the Company will provide to the Trustee, the Paying Agent and to all Holders at their addresses shown in the register of the Registrar, and to beneficial owners as required by applicable law, a notice stating, among other things:

- the last date on which a Holder may exercise the repurchase right;
- the repurchase price;
- the name and address of the paying agent; and
- the procedures that Holders must follow to require the Issuer to repurchase their Notes.

Holder may withdraw any repurchase notice (in whole or in part) by a written notice of withdrawal delivered to the Paying Agent prior to the close of business on the third Business Day immediately preceding the date 31 days prior to the Put Option Date. The notice of withdrawal must state:

- the principal amount of the withdrawn Notes;
- if certificated notes have been issued, the certificate numbers of the withdrawn Notes or, if not certificated, the notice must comply with appropriate procedures of the applicable clearing system; and
- the principal amount, if any, that remains subject to the repurchase notice.

Holders must either effect book-entry transfer or deliver the Notes, together with necessary endorsements, to the office of the paying agent after delivery of the repurchase notice to receive payment of the repurchase price. Holders will receive payment on the later of (i) the Put Option Date and (ii) the time of book-entry transfer or the delivery of the Notes. If the paying agent holds money sufficient to pay the repurchase price of the Notes on the Put Option Date, then:

- the Notes will cease to be outstanding and interest will cease to accrue (whether or not book-entry transfer of the Notes is made or whether or not the Notes are delivered to the paying agent); and
- all other rights of the Holder will terminate (other than the right to receive the repurchase price).

Our ability to satisfy our repurchase obligations may be affected by the factors described in “Risk Factors — Risks Relating to the Notes — We may not be able to repurchase the Notes at the option of the Holders of the Notes.” If we fail to repurchase the Notes when required, we will be in default under the Indenture.

In connection with any repurchase of Notes on the repurchase date, we will, if required:

- comply with the provisions of the tender offer rules under the Securities Exchange Act of 1934 (the “**Exchange Act**”) that may then be applicable; and
- file a Schedule to or any other required schedule under the Exchange Act.

No Notes may be repurchased at the option of Holders on the Put Option Date if the principal amount of the Notes has been accelerated, and such acceleration has not been rescinded, on or prior to such date (except in the case of an acceleration resulting from a default by the Company in the payment of the repurchase price with respect to such Notes).

Except as described above with respect to repurchase of Notes by the Company at the option of the Holders and as described below with respect to an Investor Put Triggering Event, the Indenture does not contain provisions that permit the Holders to require that the Company purchase or redeem the Notes in the event of a takeover, recapitalization or similar transaction.

Repurchase of Notes Upon an Investor Put Triggering Event

Not later than 30 days following a Change of Control, the Company will make an Offer to Purchase all outstanding Notes (a “**Change of Control Offer**”) at a purchase price equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, to (but not including) the Offer to Purchase Payment Date (as defined in clause (2) of the definition of “Offer to Purchase”).

Not later than 30 days following a Delisting/Suspension Put Triggering Event, the Company will make an Offer to Purchase all outstanding Notes (a “**Delisting/Suspension Put Offer**”) at a purchase price equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, to (but not including) the Offer to Purchase Payment Date.

The Company will, upon a Change of Control, timely repay all Indebtedness or obtain consents as necessary under, or terminate, agreements or instruments that would otherwise prohibit a Change of Control Offer and/or a Delisting/Suspension Put Offer (each a “**Repurchase Offer**”) required to be made pursuant to the Indenture. Notwithstanding the above, it is important to note that if the Company is unable to repay (or cause to be repaid) all of the Indebtedness, if any, that would prohibit repurchase of the Notes or is unable to obtain the requisite consents of the holders of such Indebtedness, or terminate any agreements or instruments that would otherwise prohibit a Repurchase Offer, it would continue to be prohibited from purchasing the Notes. In that case, the Company’s failure to purchase tendered Notes would constitute an Event of Default under the Indenture.

Certain of the events constituting a Change of Control or a Delisting/Suspension Put Triggering Event (each an “**Investor Put Triggering Event**”) under the Notes will also constitute an event of default under certain debt instruments of the Company and its Subsidiaries. Future debt of the Company may also (1) prohibit the Company from purchasing Notes in the event of an Investor Put Triggering Event; (2) provide that an Investor Put Triggering Event is a default; or (3) require repurchase of such debt upon an Investor Put Triggering Event. Moreover, the exercise by the Holders of their right to require the Company to purchase the Notes could cause a default under other indebtedness, even if such Investor Put Triggering Event itself does not, due to the financial effect of the purchase on the Company. The Company’s ability to pay cash to the Holders following the occurrence of an Investor Put Triggering Event may be limited by the Company’s, the Subsidiary Guarantors’, the JV Subsidiary Guarantors’ and the Personal Guarantors’ then-existing financial resources. There can be no assurance that sufficient funds will be available when necessary to make the required purchase of the Notes. See “Risk Factors — Risks Relating to the Notes — We may not be able to repurchase the Notes upon an Investor Put Triggering Event.”

The phrase “all or substantially all”, as used with respect to the assets of the Company in the definition of “Change of Control”, will likely be interpreted under applicable law of the relevant jurisdictions and will be dependent upon particular facts and circumstances. Accordingly, the ability of a Holder of Notes to require the Company to repurchase such Holder’s Notes as a result of a sale of less than all the assets of the Company to another person or group may be uncertain and will depend upon particular facts and circumstances. As a result, there may be a degree of uncertainty in ascertaining whether a sale or transfer of “all or substantially all” the assets of the Company has occurred.

Notwithstanding the above, the Company will not be required to make a Change of Control Offer following a Change of Control if a third party makes the Change of Control Offer in the same manner at the same time and otherwise in compliance with the requirements set forth in the Indenture applicable to a Change of Control Offer made by the Company and purchases all Notes validly tendered and not withdrawn under such Change of Control Offer.

Except as described above with respect to an Investor Put Triggering Event, the Indenture does not contain provisions that permit the Holders to require that the Company purchase or redeem the Notes in the event of a takeover, recapitalization or similar transaction.

Conflicting Instructions with respect to Put Option and Offers to Purchase

Notwithstanding anything set forth in the captions “— Optional Redemption,” “— Repurchase of Notes upon an Investor Put Triggering Event” or “— Repurchase of Notes by the Company at the Option of the Holders”, (1) in the event that two or more notices with respect to any of the Put Option and Offers to Purchase are sent to the Paying Agent on the same date, the notice with the earliest of Put Option Date and Offer to Purchase Payment Dates shall prevail; (2) in the event that any two or more of the Put Option Date with respect to the Put Option and the Offer to Purchase Payment Dates with respect to any Offers to Purchase fall on the same date, the notice sent to the Paying Agent first shall prevail; and (3) in the event that one or more notices with respect to any of the Put Option and Offers to Purchase are sent the Paying Agent on the same date and the relevant Put Option Date and/or the relevant Offer to Purchase Payment Dates fall on the same date, then the Put Option and/or the Offer to Purchase that will provide Holders with a higher purchase price shall prevail.

No Mandatory Redemption or Sinking Fund

There will be no mandatory redemption or sinking fund payments for the Notes.

Additional Amounts

All payments of principal of, and premium (if any) and interest on the Notes or under the Subsidiary Guarantees and JV Subsidiary Guarantees will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or within any jurisdiction in which the Company, a Surviving Person (as defined under the caption “— Consolidation, Merger and Sale of Assets”) or an applicable Subsidiary Guarantor or JV Subsidiary Guarantor is organized or resident for tax purposes (or any political subdivision or taxing authority thereof or therein), including, without limitation, if applicable, the PRC (each, as applicable, a “**Relevant Taxing Jurisdiction**”), or any jurisdiction through which payments are made (together with each Relevant Taxing Jurisdiction, a “**Relevant Jurisdiction**”), unless such withholding or deduction is required by law or by regulation or governmental policy having the force of law. In the event that any such withholding or deduction is so required, the Company, a Surviving Person or the applicable Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, will pay such additional amounts (“**Additional Amounts**”) as will result in receipt by the Holder of each Note of such amounts as would have been received by such Holder had no such withholding or deduction been required, except that no Additional Amounts shall be payable:

- (1) for or on account of:
 - (a) any tax, duty, assessment or other governmental charge that would not have been imposed but for:
 - (i) the existence of any present or former connection between the Holder or beneficial owner of such Note and the Relevant Jurisdiction, other than merely holding such Note or the receipt of payments thereunder or under a Subsidiary Guarantee or JV Subsidiary Guarantee, including, without limitation, such Holder or beneficial owner being or having been a national, domiciliary or resident of such Relevant Jurisdiction or treated as a resident thereof or being or having been physically present or engaged in a trade or business therein or having or having had a permanent establishment therein;
 - (ii) the presentation of such Note (in cases in which presentation is required) more than 30 days after the later of the date on which the payment of the principal of, premium, if any, and interest on, such Note became due and payable pursuant to the terms thereof or was made or duly provided for, except to the extent that the Holder thereof would have been entitled to such Additional Amounts if it had presented such Note for payment on any date within such 30-day period;
 - (iii) the failure of the Holder or beneficial owner to comply with a timely request of the Company, a Surviving Person, any Subsidiary Guarantor or any JV Subsidiary Guarantor, addressed to the Holder, to provide information concerning such Holder’s or beneficial owner’s nationality, residence, identity or connection with any Relevant Jurisdiction, if and to the extent that due and timely compliance with such request is required under the tax law of such jurisdiction in order to reduce or eliminate any withholding or deduction as to which Additional Amounts would have otherwise been payable to such Holder; or
 - (iv) the presentation of such Note (in cases in which presentation is required) for payment in the Relevant Jurisdiction, unless such Note could not have been presented for payment elsewhere;
 - (b) any estate, inheritance, gift, sale, transfer, personal property or similar tax, assessment or other governmental charge;

- (c) any tax, assessment, withholding or deduction required by sections 1471 through 1474 of the Internal Revenue Code of 1986, as amended (“**FATCA**”), any intergovernmental agreement between the United States and any other jurisdiction to implement FATCA, any current or future Treasury Regulations or rulings promulgated thereunder, any law, regulation or other official guidance enacted in any jurisdiction implementing FATCA, or any agreement with the U.S. Internal Revenue Service under FATCA;
 - (d) any combination of taxes, duties, assessments or other governmental charges referred to in the preceding clauses (a), (b) and (c); or
- (2) to a Holder that is a fiduciary, partnership or person other than the sole beneficial owner of any payment to the extent that such payment would be required to be included in the income under the laws of a Relevant Jurisdiction, for tax purposes, of a beneficiary or settlor with respect to the fiduciary, or a member of that partnership or a beneficial owner who would not have been entitled to such Additional Amounts had that beneficiary, settlor, member or beneficial owner been the Holder thereof.

Whenever there is mentioned in any context the payment of principal of, and any premium or interest on, any Note or under any Subsidiary Guarantee or JV Subsidiary Guarantee, such mention shall be deemed to include payment of Additional Amounts provided for in the Indenture to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

Redemption for Taxation Reasons

The Notes may be redeemed, at the option of the Company or a Surviving Person with respect to the Company, as a whole but not in part, upon giving not less than 30 days’ nor more than 60 days’ notice to the Holders and upon reasonable notice in advance of such notice to Holders to the Trustee and the Paying Agent (which notice shall be irrevocable), at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid interest (including any Additional Amounts), if any, to the date fixed by the Company or the Surviving Person, as the case may be, for redemption (the “**Tax Redemption Date**”) if, as a result of:

- (1) any change in, or amendment to, the laws (or any regulations or rulings promulgated thereunder) of a Relevant Taxing Jurisdiction affecting taxation; or
- (2) any change in the existing official position or the stating of an official position regarding the application or interpretation of such laws, regulations or rulings (including a holding, judgment or order by a court of competent jurisdiction),

which change or amendment is proposed and becomes effective (i) except as set forth in (ii) immediately below, on or after the Original Issue Date, or (ii) with respect to any Future Subsidiary Guarantor, JV Subsidiary Guarantor or Surviving Person organized or tax resident in a jurisdiction that is not already a Relevant Taxing Jurisdiction on the date such Future Subsidiary Guarantor, JV Subsidiary Guarantor or Surviving Person becomes a Subsidiary Guarantor, JV Subsidiary Guarantor or Surviving Person (“**the succession date**”), after the succession date with respect to any payment due or to become due under the Notes or the Indenture, the Company, a Surviving Person or a Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, is, or on the next Interest Payment Date would be, required to pay Additional Amounts, and such requirement cannot be avoided by the taking of reasonable measures by the Company, a Surviving Person, a Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be; *provided* that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Company, a Surviving Person, a Subsidiary Guarantor or a JV Subsidiary Guarantor, as the case may be, would be obligated to pay such Additional Amounts if a payment in respect of the Notes were then due.

Prior to the giving of any notice of redemption of the Notes pursuant to the foregoing, the Company, a Surviving Person, a Subsidiary Guarantor or a JV Subsidiary Guarantor, as the case may be, will deliver to the Trustee at least 30 days but not more than 60 days before a redemption date:

- (1) an Officers' Certificate stating that such change or amendment referred to in the prior paragraph has occurred, describing the facts related thereto and stating that such requirement cannot be avoided by the Company or such a Surviving Person, Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be, taking reasonable measures available to it; and
- (2) an Opinion of Counsel or an opinion of a tax consultant, in either case of recognized standing with respect to tax matters of the Relevant Taxing Jurisdiction, stating that the requirement to pay such Additional Amounts results from such change or amendment referred to in the prior paragraph.

The Trustee shall be entitled to accept such certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent described above, in which event it shall be conclusive and binding on the Holders.

Any Notes that are redeemed will be cancelled.

Open Market Purchases and Cancellation of Notes

The Company and any Restricted Subsidiary may purchase Notes in the open market or by tender or by any other means at any price, so long as such acquisition does not otherwise violate the terms of the Indenture.

Certain Covenants

Set forth below are summaries of certain covenants contained in the Indenture.

Limitation on Indebtedness and Preferred Stock

- (1) The Company will not, and will not permit any Restricted Subsidiary to, Incur any Indebtedness (including Acquired Indebtedness), and the Company will not permit any Restricted Subsidiary to issue Preferred Stock, *provided* that the Company or any Subsidiary Guarantor may Incur Indebtedness (including Acquired Indebtedness), any Subsidiary Guarantor may issue Preferred Stock and any Restricted Subsidiary (other than a Subsidiary Guarantor) may Incur Permitted Subsidiary Indebtedness (including Acquired Indebtedness) if, after giving effect to the Incurrence of such Indebtedness or Permitted Subsidiary Indebtedness and the receipt and application of the proceeds therefrom, (x) no Default has occurred and is continuing and (y) the Fixed Charge Coverage Ratio would be not less than 2.0 to 1.0. Notwithstanding the foregoing, the Company will not permit any Restricted Subsidiary to Incur any Disqualified Stock (other than Disqualified Stock held by the Company or a Subsidiary Guarantor, so long as it is so held).
- (2) Notwithstanding the foregoing, the Company and, to the extent provided below, any Restricted Subsidiary may Incur each and all of the following ("**Permitted Indebtedness**"):
 - (a) Indebtedness under the Notes (excluding any Additional Notes) and each Subsidiary Guarantee and JV Subsidiary Guarantee;
 - (b) any Pari Passu Guarantees;

- (c) Indebtedness of the Company or any Restricted Subsidiary outstanding on the Original Issue Date excluding Indebtedness permitted under clause (d); *provided* that such Indebtedness of Restricted Subsidiary shall be included in the calculation of Permitted Subsidiary Indebtedness (other than any such Indebtedness described in clauses (a) and (b) above and clauses (d), (f), (g), (i), (m) and (o) below);
- (d) Indebtedness of the Company or Indebtedness or Preferred Stock of any Restricted Subsidiary owed to or held by the Company or any Restricted Subsidiary; *provided* that (i) any event which results in any such Restricted Subsidiary ceasing to be a Restricted Subsidiary or any subsequent transfer of such Indebtedness or Preferred Stock (other than to the Company or any Restricted Subsidiary) shall be deemed, in each case, to constitute an Incurrence of such Indebtedness not permitted by this clause (d) and (ii) if the Company is the obligor on such Indebtedness and none of the Subsidiary Guarantors and the JV Subsidiary Guarantors are the obligee on such Indebtedness, such Indebtedness must be unsecured and expressly be subordinated in right of payment to the Notes, and if a Subsidiary Guarantor or a JV Subsidiary Guarantor is the obligor on such Indebtedness and none of the Company, the Subsidiary Guarantors and the JV Subsidiary Guarantors are the obligee on such Indebtedness, such Indebtedness must be unsecured and expressly subordinated in right of payment to the Subsidiary Guarantee of such Subsidiary Guarantor or the JV Subsidiary Guarantee of such JV Subsidiary Guarantor, as the case may be; *provided* further that, any Preferred Stock issued by a Subsidiary Guarantor or a JV Subsidiary Guarantor and held by the Company or another Restricted Subsidiary must by the terms thereof or by operation of law be subordinated in right of payment to the Subsidiary Guarantee of such Subsidiary Guarantor or the JV Subsidiary Guarantee of such JV Subsidiary Guarantor, as the case may be;
- (e) Indebtedness (“**Permitted Refinancing Indebtedness**”) issued in exchange for, or the net proceeds of which are used to refinance, refund, replace, exchange, renew, repay, defease, discharge or extend (collectively, “**Refinance**” and “**Refinances**” and “**Refinanced**” shall have a correlative meaning), then outstanding Indebtedness (or Indebtedness that is no longer outstanding but that is Refinanced substantially concurrently with the Incurrence of such Permitted Refinancing Indebtedness) Incurred under the immediately preceding paragraph (1) or clauses (a), (b), (c), (h), (p), (q), (r), (s), (t), (u) or (w) of this paragraph (2) and any Refinancings thereof in an amount not to exceed the amount so Refinanced (plus premiums, accrued interest, fees and expenses); *provided* that (i) Indebtedness the proceeds of which are used to Refinance the Notes or Indebtedness that is *pari passu* with, or subordinated in right of payment to, the Notes or a Subsidiary Guarantee or a JV Subsidiary Guarantee shall only be permitted under this clause (e) if (A) in case the Notes are Refinanced in part or the Indebtedness to be Refinanced is *pari passu* with the Notes or a Subsidiary Guarantee or a JV Subsidiary Guarantee, such new Indebtedness, by its terms or by the terms of any agreement or instrument pursuant to which such new Indebtedness is outstanding, is expressly made *pari passu* with, or subordinate in right of payment to, the remaining Notes or such Subsidiary Guarantee or such JV Subsidiary Guarantee, as the case may be, or (B) in case the Indebtedness to be Refinanced is subordinated in right of payment to the Notes or a Subsidiary Guarantee or a JV Subsidiary Guarantee, such new Indebtedness, by its terms or by the terms of any agreement or instrument pursuant to which such new Indebtedness is issued or remains outstanding, is expressly made subordinate in right of payment to the Notes or such Subsidiary Guarantee or such JV Subsidiary Guarantee, as the case may be, at least to the extent that the Indebtedness to be Refinanced is subordinated to the Notes or such Subsidiary Guarantee or such JV Subsidiary Guarantee, (ii) such new Indebtedness, determined as of the date of Incurrence of such new Indebtedness, does not mature prior to the Stated Maturity of the Indebtedness to be Refinanced, and the Average Life of such new Indebtedness is at least equal to the remaining Average Life of the Indebtedness to be Refinanced, and

- (iii) in no event may Indebtedness of the Company, any Subsidiary Guarantor or any JV Subsidiary Guarantor be Refinanced pursuant to this clause by means of any Indebtedness of any Restricted Subsidiary that is neither a Subsidiary Guarantor nor a JV Subsidiary Guarantor, and (iv) in no event may Indebtedness of the Company or any Subsidiary Guarantor be Refinanced pursuant to this clause by means of any Indebtedness of any JV Subsidiary Guarantor (*provided* that this sub-clause (iv) shall not prohibit the replacement of a Subsidiary Guarantee by a JV Subsidiary Guarantee if otherwise permitted by the Indenture);
- (f) Indebtedness Incurred by the Company or any Restricted Subsidiary pursuant to Hedging Obligations to reduce or manage the exposure of the Company or any of its Restricted Subsidiaries to fluctuations in interest rates, currencies or the price of commodities;
- (g) Pre-Registration Mortgage Guarantees by the Company or any Restricted Subsidiary;
- (h) Indebtedness Incurred by the Company or any Restricted Subsidiary for the purpose of financing (x) all or any part of the purchase price of assets, real or personal property (including the lease or other purchase price of land use rights) or equipment to be used in the ordinary course of business by the Company or a Restricted Subsidiary in a Permitted Business, including any such purchase through the acquisition of Capital Stock of any Person that owns such assets, real or personal property or equipment which will, upon acquisition, become a Restricted Subsidiary, or (y) all or any part of the purchase price or the cost of development, construction or improvement of assets, real or personal property (including the lease purchase price of land use rights) or equipment to be used in the ordinary course of business by the Company or such Restricted Subsidiary in a Permitted Business; *provided* that in the case of clauses (x) and (y), (A) the aggregate principal amount of such Indebtedness shall not exceed such purchase price or cost, (B) such Indebtedness shall be Incurred no later than 180 days after the acquisition of such property or completion of such development, construction or improvement and (C) that on the date of the Incurrence of such Indebtedness and after giving effect thereto, the aggregate principal amount outstanding of all such Indebtedness Incurred under this clause (h) (together with refinancings thereof and the aggregate principal amount outstanding of Indebtedness that was Incurred under clauses (p), (q), (r), (s), (t), (u) and (v) below and the refinancings thereof, but excluding any Contractor Guarantee or Guarantee Incurred under such clauses and this clause (h) to the extent the amount of such Contractor Guarantee or Guarantee is otherwise reflected in such aggregate principal amount does not exceed an amount equal to 30% of Total Assets;
- (i) Indebtedness Incurred by the Company or any Restricted Subsidiary constituting reimbursement obligations with respect to workers' compensation claims or self-insurance obligations or bid, performance or surety bonds (in each case other than for an obligation for borrowed money);
- (j) Indebtedness Incurred by the Company or any Restricted Subsidiary constituting reimbursement obligations with respect to letters of credit, trade guarantees or similar instruments issued in the ordinary course of business to the extent that such letters of credit, trade guarantees or similar instruments are not drawn upon or, if drawn upon, to the extent such drawing is reimbursed no later than the 30 days following receipt by the Company or such Restricted Subsidiary of a demand for reimbursement;

- (k) Indebtedness arising from agreements providing for indemnification, adjustment of purchase price or similar obligations, or from Guarantees or letters of credit, surety bonds or performance bonds securing any obligation of the Company or any Restricted Subsidiary pursuant to such agreements, in any case, Incurred in connection with the disposition of any business, assets or Restricted Subsidiary, other than Guarantees of Indebtedness Incurred by any Person acquiring all or any portion of such business, assets or Restricted Subsidiary for the purpose of financing such acquisition; *provided* that the maximum aggregate liability in respect of all such Indebtedness in the nature of such Guarantee shall at no time exceed the gross proceeds actually received from the sale of such business, assets or Restricted Subsidiary;
- (l) Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument drawn against insufficient funds in the ordinary course of business *provided, however*, that such Indebtedness is extinguished within ten Business Days of Incurrence;
- (m) Guarantees by the Company or any Restricted Subsidiary of Indebtedness of the Company or any Restricted Subsidiary that was permitted to be Incurred by another provision of this covenant, subject to the “Limitation on Issuances of Guarantees by Restricted Subsidiaries” covenant;
- (n) Indebtedness of the Company or any Restricted Subsidiary with a maturity of one year or less used by the Company or any Restricted Subsidiary for working capital; *provided* that the aggregate principal amount of Indebtedness permitted by this clause (n) at any time outstanding does not exceed US\$30 million (or the Dollar Equivalent thereof using the exchange rates existing as of the Original Issue Date);
- (o) Indebtedness of the Company or any Restricted Subsidiary constituting an obligation to pay the deferred purchase price of Capital Stock of a Person pursuant to a Staged Acquisition Agreement, to the extent that such deferred purchase price is paid within 12 months after the date the Company or such Restricted Subsidiary enters into such Staged Acquisition Agreement; *provided* that such Person is either a Restricted Subsidiary or would become a Restricted Subsidiary upon completion of the transactions under such Staged Acquisition Agreement;
- (p) Bank Deposit Secured Indebtedness Incurred by the Company or any Restricted Subsidiary; *provided* that on the date of the Incurrence of such Indebtedness and after giving effect thereto, the aggregate principal amount outstanding of all such Indebtedness Incurred under this clause (p) (together with Refinancings thereof and the aggregate principal amount outstanding of Indebtedness that was Incurred under clause (h) above and clauses (q), (r), (s), (t), (u) and (v) below and the Refinancings thereof, but excluding any Contractor Guarantee or Guarantee Incurred under such clauses and this clause (p) to the extent the amount of such Contractor Guarantee or Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 30% of Total Assets;
- (q) Indebtedness Incurred or Preferred Stock or Disqualified Stock issued by any Restricted Subsidiary arising from any Investment made by a Financial Company Investor in a PRC Restricted Subsidiary, and Indebtedness of the Company or a Restricted Subsidiary constituting a Guarantee by, or grant of a Lien on the assets of, the Company or a PRC Restricted Subsidiary in favor of a Financial Company Investor with respect to the obligation to pay a guaranteed or preferred return to such Financial Company Investor on Capital Stock of a PRC Restricted Subsidiary held by such Financial Company Investor, *provided* that on the date of such Incurrence of all such Indebtedness and after giving effect thereto, the aggregate principal amount outstanding of all such

Indebtedness and Preferred Stock Incurred under this clause (q) (together with refinancings thereof and the aggregate principal amount outstanding of Indebtedness that was Incurred under clauses (h) and (p) above and clauses (r), (s), (t), (u) and (v) below and the refinancings thereof, but excluding any Contractor Guarantee or Guarantee Incurred under such clauses and this clause (q) to the extent the amount of such Contractor Guarantee or Guarantee is otherwise reflected in such aggregate principal amount), does not exceed an amount equal to 30% of Total Assets;

- (r) Indebtedness Incurred by the Company or any Restricted Subsidiary constituting a Guarantee of Indebtedness of any Person (other than a Restricted Subsidiary) by the Company or such Restricted Subsidiary, *provided* that on the date of the Incurrence of such Indebtedness and after giving effect thereto, the aggregate of all Indebtedness Incurred under this clause (r) (together with refinancing thereof and the aggregate principal amount outstanding of Indebtedness and Preferred Stock Incurred under clauses (h), (p), and (q) above and clauses (s), (t), (u) and (v) below and the refinancings thereof, but excluding any Contractor Guarantee or Guarantee Incurred under such clauses and this clause (r) to the extent the amount of such Contractor Guarantee or Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 30% of Total Assets;
- (s) Acquired Indebtedness of any Restricted Subsidiary Incurred and outstanding on the date on which such Restricted Subsidiary became a Restricted Subsidiary (other than Indebtedness Incurred (i) to provide all or any portion of the funds utilized to consummate the transaction or series of transactions pursuant to which a Person becomes a Restricted Subsidiary or (ii) otherwise in contemplation of a Person becoming a Restricted Subsidiary or any such acquisition); *provided* that on the date of the Incurrence of such Indebtedness and after giving effect thereto, the aggregate principal amount outstanding of all such Indebtedness Incurred pursuant to this clause (s) (together with refinancing thereof and the aggregate principal amount outstanding of Indebtedness and Preferred Stock Incurred under clauses (h), (p), (q) and (r) above and clauses (t), (u) and (v) below and the refinancings thereof, but excluding any Contractor Guarantee or Guarantee Incurred under such clauses and this clause (s) to the extent the amount of such Contractor Guarantee or Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 30% of Total Assets;
- (t) (x) Indebtedness Incurred by any Restricted Subsidiary incorporated under the laws of the PRC which is secured by Investment Properties or fixed assets, and Guarantees thereof by the Company or any such Restricted Subsidiary or (y) Capitalized Lease Obligations, or Attributable Indebtedness with respect to a Sale and Leaseback Transaction that would otherwise be permitted under the section entitled “Limitation on Sale and Leaseback Transactions”, incurred by any PRC Restricted Subsidiary; *provided* that on the date of the Incurrence of such Indebtedness and after giving effect thereto, the aggregate principal amount outstanding of all such Indebtedness Incurred under this clause (t) (together with refinancings thereof and the aggregate principal amount outstanding of Indebtedness that was Incurred under clauses (h), (p), (q), (r) and (s) above and clauses (u) and (v) below and the refinancings thereof, but excluding any Contractor Guarantee or Guarantee Incurred under such clauses and this clause (t) to the extent the amount of such Contractor Guarantee or Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 30% of Total Assets;
- (u) Indebtedness of the Company or any Restricted Subsidiary constituting an obligation to pay the deferred purchase price of Capital Stock of a Person pursuant to a Minority Interest Staged Acquisition Agreement, to the extent that such deferred purchase price is paid within 12 months after the date the Company or such Restricted Subsidiary enters

- into such Minority Interest Staged Acquisition Agreement; *provided* that on the date of the Incurrence of such Indebtedness and after giving effect thereto, the aggregate principal amount outstanding of all such Indebtedness Incurred under this clause (u) (together with refinancings thereof and the aggregate principal amount outstanding of Indebtedness that was Incurred under clauses (h), (p), (q), (r), (s) and (t) above and clause (v) below and the refinancings thereof, but excluding any Contractor Guarantee or Guarantee Incurred under such clauses and this clause (u) to the extent the amount of such Contractor Guarantee or Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 30% of Total Assets;
- (v) Onshore Secured Indebtedness Incurred by the Company or any Restricted Subsidiary; *provided* that on the date of the Incurrence of such Indebtedness and after giving effect thereto, the aggregate principal amount outstanding of all such Indebtedness Incurred under this clause (v) (together with refinancings thereof and the aggregate principal amount outstanding of Indebtedness that was Incurred under clauses (h), (p), (q), (r), (s), (t) and (u) above and the refinancings thereof, but excluding any Contractor Guarantee or Guarantee Incurred under such clauses and this clause (v) to the extent the amount of such Contractor Guarantee or Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 30% of Total Assets; and
- (w) Indebtedness of the Company or any Restricted Subsidiary in an aggregate principal amount outstanding at any time (together with Refinancings thereof) not to exceed US\$20 million (or the Dollar Equivalent thereof using the exchange rates existing as of the Original Issue Date).
- (3) Notwithstanding the foregoing and without prejudice to the provisions set forth under the caption “— Security”, none of the Pledge Entities or Qidong Glory Hotel Management Co., Ltd. (啟東國瑞酒店管理有限公司) will Incur any Indebtedness or issue Preferred Stock before the full and permanent repayment of the Notes, except for (i) Indebtedness Incurred pursuant to a facility between Pledge Entity A and a PRC-based bank with a principal amount of up to RMB250 million and any extensions thereof, (ii) Indebtedness or Preferred Stock owed to the Company or any of its Subsidiaries that are contractually subordinated in right of payment to the Notes, the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Personal Guarantees, *provided* that such contractually subordinated Indebtedness or Preferred Stock shall not be secured by any Lien and (iii) Indebtedness Incurred in connection with the ordinary course of business of any Pledge Entity (including, without limitation, Pre-Registration Mortgage Guarantees).
- (4) For purposes of determining compliance with this “— Limitation on Indebtedness and Preferred Stock” covenant, in the event that an item of Indebtedness meets the criteria of more than one of the types of Indebtedness described above, including under the proviso in part (1) above and one or more types of Permitted Indebtedness, the Company, in its sole discretion, shall classify, and from time to time may reclassify, such item of Indebtedness in one or more types of Indebtedness described above.
- (5) For purposes of determining compliance with any U.S. dollar denominated restriction on the Incurrence of Indebtedness under this “— Limitation on Indebtedness and Preferred Stock” covenant, the Dollar Equivalent principal amount of Indebtedness denominated in a foreign currency shall be calculated based on the relevant currency exchange rate in effect on the date such Indebtedness was Incurred, in the case of term Indebtedness, or first committed, in the case of revolving credit Indebtedness; *provided* that if such Indebtedness is Incurred to refinance other Indebtedness denominated in a foreign currency, and such refinancing would cause the applicable U.S. dollar-denominated restriction to be exceeded if calculated at the relevant currency exchange rate in effect on the date of such refinancing, such U.S. dollar-denominated restriction shall be deemed not to have been exceeded so long as the principal

amount of such refinancing Indebtedness does not exceed the principal amount of such Indebtedness being refinanced. Notwithstanding any other provision of the Indenture, the maximum amount of Indebtedness that may be Incurred pursuant to this covenant will not be deemed to be exceeded with respect to any outstanding Indebtedness due solely to the result of fluctuations in the exchange rates of currencies, *provided* that such Indebtedness was permitted to be Incurred at the time of such Incurrence.

Limitation on Restricted Payments

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly (the payments or any other actions described in clauses (1) through (4) below being collectively referred to as “**Restricted Payments**”):

- (1) declare or pay any dividend or make any distribution on or with respect to the Company’s or any of its Restricted Subsidiaries’ Capital Stock (other than dividends or distributions payable or paid in shares of the Company’s Capital Stock (other than Disqualified Stock or Preferred Stock) or in options, warrants or other rights to acquire shares of such Capital Stock) held by Persons other than the Company or any Wholly Owned Restricted Subsidiary;
- (2) purchase, call for redemption or redeem, retire or otherwise acquire for value any shares of Capital Stock of the Company or any Restricted Subsidiary (including options, warrants or other rights to acquire such shares of Capital Stock) or any direct or indirect parent of the Company held by any Persons other than the Company or any Wholly Owned Restricted Subsidiary (other than (i) the purchase of Capital Stock of a Restricted Subsidiary pursuant to a Staged Acquisition Agreement or (ii) the purchase of Capital Stock of a Restricted Subsidiary held by any Financial Company Investor);
- (3) make any voluntary or optional principal payment, or voluntary or optional redemption, repurchase, defeasance, or other acquisition or retirement for value, of Indebtedness that is subordinated in right of payment to the Notes or any of the Subsidiary Guarantees or any of the JV Subsidiary Guarantees (excluding any intercompany Indebtedness between or among the Company and any of its Restricted Subsidiaries); or
- (4) make any Investment, other than a Permitted Investment;

if, at the time of, and after giving effect to, the proposed Restricted Payment:

- (a) a Default has occurred and is continuing or would occur as a result of such Restricted Payment;
- (b) the Company could not Incur at least US\$1.00 of Indebtedness under the proviso in part (1) of the covenant described under “— Limitation on Indebtedness and Preferred Stock”; or
- (c) such Restricted Payment, together with the aggregate amount of all Restricted Payments made by the Company and its Restricted Subsidiaries after the Measurement Date, shall exceed the sum of:
 - (i) 50% of the aggregate amount of the Consolidated Net Income of the Company (or, if the Consolidated Net Income is a loss, minus 100% of the amount of such loss) accrued on a cumulative basis during the period (taken as one accounting period) beginning on the first day of the fiscal quarter during which the Measurement Date occurred and ending on the last day of the Company’s most recently ended fiscal quarter for which consolidated financial statements of the Company (which the Company shall use its reasonable best efforts to compile in a timely manner) are available (which may include internal consolidated financial statements); plus

- (ii) 100% of the aggregate Net Cash Proceeds received by the Company after the Measurement Date as a capital contribution to its common equity or from the issuance and sale of its Capital Stock (other than Disqualified Stock) to a Person who is not a Subsidiary of the Company, including any such Net Cash Proceeds received upon (A) the conversion of any Indebtedness (other than Subordinated Indebtedness) of the Company into Capital Stock (other than Disqualified Stock) of the Company, or (B) the exercise by a Person who is not a Subsidiary of the Company of any options, warrants or other rights to acquire Capital Stock of the Company (other than Disqualified Stock) in each case excluding the amount of any such Net Cash Proceeds used to redeem, repurchase, defease or otherwise acquire or retire for value any Subordinated Indebtedness or Capital Stock of the Company; plus
- (iii) the amount by which Indebtedness of the Company or any of its Restricted Subsidiaries is reduced on the Company's consolidated balance sheet upon the conversion or exchange (other than by a Subsidiary of the Company) subsequent to the Measurement Date of any Indebtedness of the Company or any Restricted Subsidiary convertible or exchangeable into Capital Stock (other than Disqualified Stock) of the Company (less the amount of any cash, or the Fair Market Value of any other property, distributed by the Company upon such conversion or exchange); plus
- (iv) an amount equal to the sum of (A) the net reduction in Investments (other than reductions in Permitted Investments) that were made after the Measurement Date in any Person resulting from (1) payments of interest on Indebtedness, dividends or repayments of loans or advances by such Person, in each case to the Company or any Restricted Subsidiary (except, in each case, to the extent any such payment or proceeds are included in the calculation of Consolidated Net Income) after the Measurement Date, (2) the unconditional release of a Guarantee provided by the Company or a Restricted Subsidiary after the Measurement Date of an obligation of another Person, (3) to the extent that an Investment made after the Measurement Date was, after such date, or is sold or otherwise liquidated or repaid for cash, the lesser of (x) cash return of capital with respect to such Investment (less the cost of disposition, if any) and (y) the initial amount of such Investment, (4) from redesignations of Unrestricted Subsidiaries as Restricted Subsidiaries, not to exceed, in each case, the amount of Investments (other than Permitted Investments) made by the Company or a Restricted Subsidiary after the Measurement Date in any such Person, or (5) any Person becoming a Restricted Subsidiary (whereupon all Investments made by the Company or any Restricted Subsidiary in such Person since the Measurement Date shall be deemed to have been made pursuant to clause (1) of the definition of "Permitted Investment") but only to the extent such Investments by the Company or any Restricted Subsidiary in such Person was a Restricted Payment made to the extent permitted under this paragraph (c), plus (B) the portion (proportionate to the Company's equity interest in such Unrestricted Subsidiary) of the Fair Market Value of the net assets of an Unrestricted Subsidiary at the time such Unrestricted Subsidiary is designated a Restricted Subsidiary under the Indenture; provided, however, that the foregoing sum shall not exceed, in the case of any Person, the amount of Investments previously made (and that would have been treated as Restricted Payments under the Indenture had the Indenture been in effect at such time) by the Company or any Restricted Subsidiary in such Person, and provided further, that no amount will be included under this clause (iv) to the extent it is already included in Consolidated Net Income as described in clause (i) of this paragraph.

The foregoing provision shall not be violated by reason of:

- (1) the payment of any dividend or redemption of any Capital Stock within 60 days after the related date of declaration or call for redemption if, at said date of declaration or call for redemption, such payment or redemption would comply with the preceding paragraph;
- (2) the redemption, repurchase, defeasance or other acquisition or retirement for value of Subordinated Indebtedness of the Company or any of the Subsidiary Guarantors or JV Subsidiary Guarantors with the Net Cash Proceeds of, or in exchange for, a substantially concurrent Incurrence of Permitted Refinancing Indebtedness;
- (3) the redemption, repurchase or other acquisition of Capital Stock of the Company or any Subsidiary Guarantor or JV Subsidiary Guarantor (or options, warrants or other rights to acquire such Capital Stock) in exchange for, or out of the Net Cash Proceeds of a substantially concurrent capital contribution or a sale (other than to a Subsidiary of the Company) of, shares of the Capital Stock (other than Disqualified Stock) of the Company or any Subsidiary Guarantor or any JV Subsidiary Guarantor (or options, warrants or other rights to acquire such Capital Stock); *provided* that the amount of any such Net Cash Proceeds that are utilized for any such Restricted Payment will be excluded from clause (c)(ii) of the preceding paragraph, *provided however* that any item that has been excluded pursuant to clause (c)(ii) of the preceding paragraph will not be excluded again as a result of the proviso in this clause (3);
- (4) the redemption, repurchase, defeasance or other acquisition or retirement for value of Subordinated Indebtedness of the Company or any of the Subsidiary Guarantors or JV Subsidiary Guarantors in exchange for, or out of the Net Cash Proceeds of, a substantially concurrent capital contribution or sale (other than to a Subsidiary of the Company) of, shares of Capital Stock (other than Disqualified Stock) of the Company or any of the Subsidiary Guarantors or JV Subsidiary Guarantors (or options, warrants or other rights to acquire such Capital Stock); *provided* that the amount of any such Net Cash Proceeds that are utilized for any such Restricted Payment will be excluded from clause (c)(ii) of the preceding paragraph, *provided however* that any item that has been excluded pursuant to clause (c)(ii) of the preceding paragraph will not be excluded again as a result of the proviso in this clause (4);
- (5) the payment of any dividends or distributions declared, paid or made by a Restricted Subsidiary payable, on a pro rata basis or on a basis more favorable to the Company, to all holders of any class of Capital Stock of such Restricted Subsidiary, not less than 50% of which is held, directly or indirectly through Restricted Subsidiaries by the Company (or, with respect to Restricted Subsidiaries of which the Company owns, directly or indirectly, less than 50% of the Voting Stock, the Company owns, directly or indirectly, no less of such class of Capital Stock than it owns of such Voting Stock);
- (6) dividends paid to, or the purchase of Capital Stock of any PRC Restricted Subsidiary held by, any Financial Company Investor in respect of any Indebtedness or Preferred Stock outstanding on the Original Issue Date or permitted to be Incurred under paragraph (2)(q) of the “— Limitation on Indebtedness and Preferred Stock” covenant;
- (7) (A) the repurchase, redemption or other acquisition or retirement for value of the Capital Stock of the Company or any Restricted Subsidiary (directly or indirectly, including through any trustee, agent or nominee) in connection with the Company’s employee benefit plan, and any corresponding Investment by the Company or any Restricted Subsidiary in any trust or similar arrangements to the extent of such repurchased, redeemed, acquired or retired Capital Stock, or (B) the repurchase, redemption or other acquisition or retirement for value of any Capital Stock of the Company or any Restricted Subsidiary held by an employee benefit plan of the Company or any Restricted Subsidiary, any current or former officer, director,

consultant, or employee of the Company or any Restricted Subsidiary (or permitted transferees, estates or heirs of any of the foregoing); *provided* that the aggregate consideration paid for all such repurchased, redeemed, acquired or retired Capital Stock pursuant to this clause (7) shall not exceed US\$5 million (or the Dollar Equivalent thereof using the Original Issue Date as the date of determination);

- (8) cash payment in lieu of fractional shares in connection with the exercise of warrants, options or other securities convertible into or exchangeable for Capital Stock of the Company, provided, however, that any such cash payment shall not be for the purpose of evading the limitation of this “— Limitation on Restricted Payments” covenant (as determined in good faith by the Board of Directors of the Company);
- (9) the purchase of Capital Stock of a Person, and payments made pursuant to (i) a Staged Acquisition Agreement, *provided* that such Person is either a Restricted Subsidiary or would become a Restricted Subsidiary upon completion of the transactions under such Staged Acquisition Agreement or (ii) a Minority Interest Staged Acquisition Agreement, *provided* that on the date that such Minority Staged Acquisition Agreement was entered into, such payments would have complied with the preceding paragraph;
- (10) the purchase by the Company or a Restricted Subsidiary of Capital Stock of any Restricted Subsidiary that is not Wholly Owned, directly or indirectly, by the Company from an Independent Third Party pursuant to an agreement entered into between or among the Company or any Restricted Subsidiary and such Independent Third Party solely for the purpose of acquiring real property or land use rights, *provided* that (x) such purchase occurs within 12 months after such Restricted Subsidiary acquires the real property or land use rights it was formed to acquire, (y) the Company delivers to the Trustee a Board Resolution set forth in an Officers’ Certificate confirming that, in the opinion of the Board of Directors, the purchase price of such Capital Stock is less than or equal to the Fair Market Value of such Capital Stock and (z) the aggregate consideration paid for all such purchased Capital Stock pursuant to this clause (10) shall not exceed an amount equal to 10.0% of Total Assets;
- (11) the declaration and payment by the Company of a dividend in respect of its Capital Stock in an amount not to exceed 35% of the Company’s consolidated net profit for the financial year of 2016 (including any interim dividend that the Company has paid with respect to any portion of the financial year 2016, irrespective whether such interim dividend was paid prior to or after the Original Issue Date);
- (12) the declaration and payment of dividends by the Company with respect to any financial year commencing from 2017 up to an aggregate amount not to exceed 35% of the Company’s consolidated net profit in such financial year, *provided* that the conditions of clause (a) and (c) of the first paragraph of this “Limitation on Restricted Payments” covenant would not be violated as a consequence of such declaration and payment of dividends; or
- (13) US\$20 million (or the Dollar Equivalent thereof);

provided that, in the case of clause (2), (3) or (4) of the preceding paragraph, no Default shall have occurred and be continuing or would occur as a consequence of the actions or payments set forth therein.

Each Restricted Payment permitted pursuant to clause (1) or (9)(ii) of the preceding paragraph shall be included in calculating whether the conditions of clause (4)(c) of the first paragraph of this “Limitation on Restricted Payments” covenant have been met with respect to any subsequent Restricted Payments.

The amount of any Restricted Payments (other than cash) will be the Fair Market Value on the date of the Restricted Payment of the asset(s) or securities proposed to be transferred or issued by the Company or the Restricted Subsidiary, as the case may be, pursuant to the Restricted Payment. The value of any assets or securities that are required to be valued by this covenant will be their Fair Market Value. The Board of Directors' determination of the Fair Market Value of a Restricted Payment or any such assets or securities must be based upon an opinion or appraisal issued by an appraisal or investment banking firm of recognized international standing if the Fair Market Value exceeds US\$10.0 million (or the Dollar Equivalent thereof).

Not later than the date of making any Restricted Payment in excess of US\$10.0 million (or the Dollar Equivalent thereof) (other than any Restricted Payments set forth in clauses (5) through (13) above), the Company will deliver to the Trustee an Officers' Certificate stating that such Restricted Payment is permitted and setting forth the basis upon which the calculations required by this "— Limitation on Restricted Payments" covenant were computed, together with a copy of any opinion or appraisal required by the Indenture.

For purposes of determining compliance with this "— Limitation on Restricted Payments" covenant, in the event that an item of Investment meets the criteria of both the first paragraph of this "— Limitation on Restricted Payments" covenant and paragraph (18) of the definition of "Permitted Investment" at any time, the Company, in its sole discretion, shall classify, and from time to time may reclassify, such item of Investment in either or both of such paragraphs.

Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries

- (1) Except as provided below, the Company will not, and will not permit any Restricted Subsidiary to, create or otherwise cause or permit to exist or become effective any encumbrance or restriction on the ability of any Restricted Subsidiary to:
 - (a) pay dividends or make any other distributions on any Capital Stock of such Restricted Subsidiary owned by the Company or any other Restricted Subsidiary;
 - (b) pay any Indebtedness or other obligation owed to the Company or any other Restricted Subsidiary;
 - (c) make loans or advances to the Company or any other Restricted Subsidiary; or
 - (d) sell, lease or transfer any of its property or assets to the Company or any other Restricted Subsidiary

provided that for the avoidance of doubt the following shall not be deemed to constitute such an encumbrance or restriction: (i) the priority of any Preferred Stock in receiving dividends or liquidating distributions prior to dividends or liquidating distributions being paid on Common Stock; (ii) the subordination of loans or advances made to the Company or any Restricted Subsidiary to other Indebtedness Incurred by the Company or any Restricted Subsidiary; and (iii) the provisions contained in documentation governing Indebtedness requiring transactions between or among the Company and any Restricted Subsidiary or between or among any Restricted Subsidiary to be on fair and reasonable terms or on an arm's length basis.

- (2) The provisions of paragraph (1) do not apply to any encumbrances or restrictions:
 - (a) existing in agreements as in effect on the Original Issue Date, or in the Notes, the Subsidiary Guarantees, the JV Subsidiary Guarantees or the Indenture, and any extensions, Refinancings, renewals or replacements of any of the foregoing agreements; *provided* that the encumbrances and restrictions in any such extension, Refinancing, renewal or replacement, taken as a whole, are no more restrictive in any material respect to the Holders than those encumbrances or restrictions that are then in effect and that are being extended, Refinanced, renewed or replaced;

- (b) existing under or by reason of applicable law, rule, regulation or order;
- (c) existing with respect to any Person or the property or assets of such Person acquired by the Company or any Restricted Subsidiary, at the time of such acquisition and not incurred in contemplation thereof, which encumbrances or restrictions are not applicable to any Person or the property or assets of any Person other than such Person or the property or assets of such Person so acquired, and any extensions, Refinancings, renewals or replacements thereof; *provided* that the encumbrances and restrictions in any such extension, Refinancing, renewal or replacement, taken as a whole, are no more restrictive in any material respect to the Holders than those encumbrances or restrictions that are then in effect and that are being extended, Refinanced, renewed or replaced;
- (d) that otherwise would be prohibited by the provision described in clause (1)(d) of this covenant if they arise, or are agreed to, in the ordinary course of business and, that (i) restrict in a customary manner the subletting, assignment or transfer of any property or asset that is subject to a lease or license, or (ii) exist by virtue of any Lien on, or agreement to transfer, option or similar right with respect to, any property or assets of the Company or any Restricted Subsidiary not otherwise prohibited by the Indenture or (iii) do not relate to any Indebtedness, and that do not, individually or in the aggregate, detract from the value of property or assets of the Company or any Restricted Subsidiary in any manner material to the Company or any Restricted Subsidiary;
- (e) with respect to a Restricted Subsidiary and imposed pursuant to an agreement that has been entered into for the sale or disposition of all or substantially all of the Capital Stock of, or property and assets of, such Restricted Subsidiary that is permitted by the “— Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries”, “— Limitation on Indebtedness and Preferred Stock” and “— Limitation on Asset Sales” covenants;
- (f) with respect to any Restricted Subsidiary and imposed pursuant to an agreement that has been entered into for the Incurrence of Indebtedness or issuance of Preferred Stock or Disqualified Stock of the type described under clause (2)(e), (2)(g), (2)(h), (2)(q), (2)(r), (2)(s), (2)(t) or (2)(u) or permitted under clause (2)(n), 2(o), 2(p) or 2(v) of the “Limitation on Indebtedness and Preferred Stock” covenant if, as determined by the Board of Directors, such encumbrances or restrictions are (i) customary for such types of agreements and (ii) would not, at the time agreed to, be expected to materially and adversely affect the ability of the Company to make required payment on the Notes, and any extensions, Refinancings, renewals or replacements of any of the foregoing agreements; *provided* that the encumbrances and restrictions in any such extension, Refinancing, renewal or replacement, taken as a whole, are no more restrictive in any material respect to the Holders than those encumbrances or restrictions that are then in effect and that are being extended, Refinanced, renewed or replaced; *provided* further that, the Board of Directors is empowered to determine whether the conditions set forth in clauses (i) and (ii) are met, which determination shall be conclusive if evidenced by a Board Resolution;
- (g) customary provisions contained in agreements evidencing Liens incurred in accordance with the “— Limitation on Liens” covenant that limit the right of the debtor to dispose of the assets which are subject to the Liens;
- (h) existing in customary provisions in shareholders agreements, joint venture agreements and other similar agreements permitted under the Indenture, to the extent such encumbrance or restriction relates to the activities or assets of a Restricted Subsidiary that is a party to such joint venture and if (as determined in good faith by the Board of Directors) (i) the encumbrances or restrictions are customary for a joint venture or

similar agreement of that type and (ii) the encumbrances or restrictions would not, at the time agreed to, be expected to materially and adversely affect the ability of (x) the Company to make the required payments on the Notes, or (y) any Subsidiary Guarantor or JV Subsidiary Guarantor to make required payments under its Subsidiary Guarantee or JV Subsidiary Guarantee, respectively; provided further that, the Board of Directors is empowered to determine whether the conditions set forth in clauses (i) and (ii) are met, which determination shall be conclusive if evidenced by a Board Resolution; or

- (i) existing with respect to any Unrestricted Subsidiary or the property or assets of such Unrestricted Subsidiary that is designated as a Restricted Subsidiary in accordance with the terms of the Indenture at the time of such designation and not incurred in contemplation of such designation, which encumbrances or restrictions are not applicable to any Person or the property or assets of any Person other than such Unrestricted Subsidiary or its subsidiaries or the property or assets of such Unrestricted Subsidiary or its subsidiaries, and any extensions, Refinancings, renewals or replacements thereof; *provided* that the encumbrances and restrictions in any such extension, Refinancing, renewal or replacement, taken as a whole, are no more restrictive in any material respect to the Holders than those encumbrances or restrictions that are then in effect and that are being extended, Refinanced, renewed or replaced.

Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries

The Company will not sell, and will not permit any Restricted Subsidiary, directly or indirectly, to issue or sell any shares of Capital Stock of a Restricted Subsidiary (including options, warrants or other rights to purchase shares of such Capital Stock) except:

- (1) to the Company or a Wholly Owned Restricted Subsidiary, or in the case of a Restricted Subsidiary that is not Wholly Owned, pro rata to its shareholders or incorporators or on a basis more favorable to the Company;
- (2) to the extent such Capital Stock represents director's qualifying shares or is required by applicable law to be held by a Person other than the Company or a Wholly Owned Restricted Subsidiary;
- (3) the issuance or sale of Capital Stock of a Restricted Subsidiary if, immediately after giving effect to such issuance or sale, such Restricted Subsidiary would no longer constitute a Restricted Subsidiary and any remaining Investment in such Person would have been permitted to be made under the "Limitation on Restricted Payments" covenant if made on the date of such issuance or sale and *provided* that the Company complies with the "— Limitation on Asset Sales" covenant to the extent required thereunder; or
- (4) the issuance or sale of Capital Stock of a Restricted Subsidiary (which remains a Restricted Subsidiary after any such issuance or sale); *provided* that the Company or such Restricted Subsidiary applies the Net Cash Proceeds of such issuance or sale in accordance with the "— Limitation on Asset Sales" covenant to the extent required thereunder.

Limitation on Issuances of Guarantees by Restricted Subsidiaries

The Company will not permit any Restricted Subsidiary which is neither a Subsidiary Guarantor nor a JV Subsidiary Guarantor, directly or indirectly, to Guarantee any Indebtedness ("**Guaranteed Indebtedness**") of the Company or any Subsidiary Guarantor or JV Subsidiary Guarantor, unless (1) (a) such Restricted Subsidiary simultaneously executes and delivers a supplemental indenture to the Indenture providing for an unsubordinated Subsidiary Guarantee (in the case of a Subsidiary Guarantor) or JV Subsidiary Guarantee (in the case of a JV Subsidiary Guarantor) of payment of the Notes by such Restricted Subsidiary and (b) such Restricted Subsidiary waives and will not in any manner whatsoever

claim or take the benefit or advantage of, any rights of reimbursement, indemnity or subrogation or any other rights against the Company or any other Restricted Subsidiary as a result of any payment by such Restricted Subsidiary under its Subsidiary Guarantee or JV Subsidiary Guarantee, as the case may be, until the Notes have been paid in full or (2) such Guaranteed Indebtedness is permitted by clauses (2)(c), (2)(d), (2)(p), or (2)(v) (in the case of clause (2)(p) or (2)(v), with respect to the Guarantee provided by the Company or any Restricted Subsidiary through the pledge of one or more bank accounts or bank deposits or any other assets in the PRC to secure (or the use of any guarantee or letter of credit or similar instruments to guarantee) any Bank Deposit Secured Indebtedness or Onshore Secured Indebtedness) under the caption “— Limitation on Indebtedness and Preferred Stock.”

If the Guaranteed Indebtedness (1) ranks *pari passu* in right of payment with the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee, then the Guarantee of such Guaranteed Indebtedness shall rank *pari passu* in right of payment with, or subordinated to, the Subsidiary Guarantee or the JV Subsidiary Guarantee, as the case may be, or (2) is subordinated in right of payment to the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee, then the Guarantee of such Guaranteed Indebtedness shall be subordinated in right of payment to the Subsidiary Guarantee or the JV Subsidiary Guarantee, as the case may be, at least to the extent that the Guaranteed Indebtedness is subordinated to the Notes, the Subsidiary Guarantee or the JV Subsidiary Guarantee.

The Company will not permit any JV Subsidiary Guarantor, directly or indirectly, to guarantee any Indebtedness of the Company or any other Restricted Subsidiary unless the aggregate claims of the creditor under such guarantee will be limited to the JV Entitlement Amount. If any JV Subsidiary Guarantor guarantees any Indebtedness of the Company or any other Restricted Subsidiary where the aggregate claims of the creditor under such guarantee exceeds the JV Entitlement Amount, such JV Subsidiary Guarantee shall be replaced with a Subsidiary Guarantee given by a Subsidiary Guarantor.

Limitation on Transactions with Shareholders and Affiliates

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, enter into, renew or extend any transaction or arrangement (including, without limitation, the purchase, sale, lease or exchange of property or assets, or the rendering of any service) with (x) any holder (or any Affiliate of such holder) of 10.0% or more of any class of Capital Stock of the Company or (y) any Affiliate of the Company (each an “**Affiliate Transaction**”), unless:

- (1) the Affiliate Transaction is on fair and reasonable terms that are no less favorable to the Company or the relevant Restricted Subsidiary than those that would have been obtained in a comparable transaction by the Company or the relevant Restricted Subsidiary with a Person that is not an Affiliate of the Company; and
- (2) the Company delivers to the Trustee:
 - (a) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of US\$5.0 million (or the Dollar Equivalent thereof), a Board Resolution set forth in an Officers’ Certificate certifying that such Affiliate Transaction complies with this covenant and such Affiliate Transaction has been approved by a majority of the disinterested members of the Board of Directors; and
 - (b) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of US\$10.0 million (or the Dollar Equivalent thereof), in addition to the Board Resolution required in clause (2)(a) above, an opinion as to the fairness to the Company or the relevant Restricted Subsidiary of such Affiliate Transaction from a financial point of view or confirming that the terms of such Affiliate Transaction are no less favorable to the Company or the relevant Restricted Subsidiary than the terms available to (or from, as applicable) a Person that is not an Affiliate of the Company, in each case issued by an accounting, appraisal or investment banking firm of recognized international standing.

The foregoing limitation does not limit, and shall not apply to:

- (1) the payment of reasonable and customary regular fees and other compensation for the service as board members to directors of the Company or any Restricted Subsidiary who are not employees of the Company or any Restricted Subsidiary;
- (2) transactions between or among the Company and any of its Wholly Owned Restricted Subsidiaries or between or among Wholly Owned Restricted Subsidiaries;
- (3) any Restricted Payment of the type described in clauses (1) or (2) of the first paragraph of the covenant described above under “— Limitation on Restricted Payments” if permitted by that covenant;
- (4) any sale of Capital Stock (other than Disqualified Stock) of the Company;
- (5) the payment of compensation to officers and directors of the Company or any Restricted Subsidiary pursuant to an employee stock or share option scheme, so long as such scheme is in compliance with the listing rules of the Stock Exchange of Hong Kong, which as of the Original Issue Date require a majority shareholder approval of any such scheme;
- (6) any purchase of Capital Stock of a Restricted Subsidiary pursuant to a Staged Acquisition Agreement or a Minority Staged Acquisition Agreement, and any purchase of Capital Stock of a Restricted Subsidiary held by a Financial Company Investor so long as each such purchase is in compliance with the listing rules of the Stock Exchange of Hong Kong;
- (7) any transaction by the Company or any Restricted Subsidiary to outsource property management or business management services related to the Permitted Businesses, *provided* that such transactions are in compliance with the listing rules of the Stock Exchange of Hong Kong;
- (8) any repurchase, redemption or other acquisition or retirement for value of any Capital Stock of the Company or any Restricted Subsidiary pursuant to clause (7) of the second paragraph of the covenant entitled “— Limitation on Restricted Payments”; and
- (9) transactions with a Person (other than an Unrestricted Subsidiary of the Company) that is an Affiliate of the Company solely because the Company, directly or indirectly, owns Capital Stock in, or controls, such Person or solely because the Company or one of its Subsidiaries has the right to designate one or more members of the Board of Directors or similar governing body of such Person; *provided* that the Company, at the time of such transaction, is listed on the Main Board of the Stock Exchange of Hong Kong.

In addition, the requirements of clause (2) of the first paragraph of this covenant shall not apply to (i) Investments (including Permitted Investments that are permitted under paragraph (18) of the definition of “Permitted Investments” but otherwise excluding any other Permitted Investments) not prohibited by the “Limitation on Restricted Payments” covenant, (ii) transactions pursuant to agreements in effect on the Original Issue Date and described in this offering memorandum, or any amendment or modification or replacement thereof, so long as such amendment, modification or replacement is not more disadvantageous to the Company and its Restricted Subsidiaries than the original agreement in effect on the Original Issue Date, (iii) any transaction between or among any of the Company, any Wholly-Owned Restricted Subsidiary and any Restricted Subsidiary that is not a Wholly Owned Restricted Subsidiary or between or among the Company or a Restricted Subsidiary on the one hand and a Jointly Controlled Entity, an Associate or an Unrestricted Subsidiary on the other hand and (iv) any Affiliate Transaction that is conducted in compliance with the connected transaction rules of the Stock Exchange of Hong Kong; *provided* that, in the case of clause (iv), the Company, at the time of such transaction, is listed on the Main Board of the Stock Exchange of Hong Kong; *provided further* that, in

the case of clause (iii), (a) such transaction is entered into in the ordinary course of business and (b) none of the shareholders or partners (other than the Company or any Restricted Subsidiary) of or in such Restricted Subsidiary that is not a Wholly Owned Restricted Subsidiary, Jointly Controlled Entity, Associate or Unrestricted Subsidiary is a Person described in clause (x) or (y) of the first paragraph of this covenant (other than by reason of such shareholder or partner being an officer or director of such Restricted Subsidiary, Jointly Controlled Entity, Associate or Unrestricted Subsidiary, as the case may be).

Limitation on Liens

The Company will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, incur, assume or permit to exist any Lien on any Capital Stock of any Subsidiary Guarantor (other than any Permitted Lien specified in clause (1) or (6) of the definition of “Permitted Liens”), unless the Notes are equally and ratably secured by such Lien.

The Company will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, incur, assume or permit to exist any Lien on the Collateral (other than any Permitted Lien specified in clause (1) or (30) of the definition of “Permitted Liens” and, with respect to the issued Capital Stock of the Pledge Entity A, other than any Permitted Lien specified in clause (11) of the definition of “Permitted Liens” (*provided* that such Permitted Lien specified in clause (11) is released within the time period and in the manner provided in the Yongqing Security Document)).

The Company will not, and will not permit any of the Pledgors or any other Restricted Subsidiaries to, directly or indirectly, incur, assume or permit to exist any Lien on any assets of the Pledge Entities (including but not limited to the Properties) (other than any Permitted Lien specified in clause (1), (2), (3), (5), (8), (11), (13), (14) or (15) of the definition of “Permitted Liens”).

The Company will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, incur, assume or permit to exist any Lien of any nature whatsoever on any of its assets or properties of any kind (other than any Capital Stock of any Subsidiary Guarantor, the Collateral or the Properties as otherwise described in the preceding paragraphs of this covenant), whether owned at the Original Issue Date or thereafter acquired, except Permitted Liens, unless the Notes are equally and ratably secured by such Lien.

Limitation on Disposal of the Collateral and the Properties

The Company will not, and will not permit any of the Pledgors, to sell, transfer or otherwise dispose of the Collateral, in whole or in part, to any third party.

The Company will not, and will not permit the Pledgor A or any of its Subsidiaries, to sell, transfer or otherwise dispose of the Property A, in whole or in part, unless in the ordinary course of business under the Permitted Business.

The Company will not, and will not permit the Pledgor B or any of its Subsidiaries, to sell, transfer or otherwise dispose of the Property B, in whole or in part, to any third party.

Limitation on Reduction of Capital Contribution and Dividends Distribution

The Company and the Pledgors shall not, and shall procure each Pledge Entity not to, reduce or otherwise adversely affect the capital contribution of any Pledge Entity (the “**Capital Contribution**”), except for any action by the Company or Pledgor A to effect the reduction in the capital contribution of the Pledge Entity A from RMB2.2 billion to RMB200 million authorized prior to the Original Issue Date (the “**Existing Capital Contribution Reduction**”).

The Company and the Pledgors shall not, and shall procure each Pledge Entity not to, distribute any cash dividends, stock dividends, liquidating dividends, non-cash dividends, shares or stock resulting from stock splits or reclassifications, rights issues, warrants, options and other distribution (whether similar or dissimilar to the foregoing) in respect of the Capital Contribution in whole or in part (the “**Pledged Equity Dividends**”).

Notwithstanding the foregoing, the Capital Contribution may be reduced and the Pledged Equity Dividends may be distributed to any direct or indirect shareholder of any Pledge Entity, *provided* that within 10 days thereof, the Company makes an Offer to Purchase the Notes having a principal amount equal to the reduction amount of the Capital Contribution or amount of the Pledged Equity Dividends distributed, as applicable, rounded down to the nearest US\$1,000; *provided* further that, for the avoidance of doubt, no Offer to Purchase is required in respect of any action by the Company or Pledgor A to effect the Existing Capital Contribution Reduction. The offer price in any Offer to Purchase will be equal to 101% of the principal amount of the Notes and accrued and unpaid interest, if any, to (but not including) the date of purchase, and will be payable in cash.

Limitation on Sale and Leaseback Transactions

The Company will not, and will not permit any of its Restricted Subsidiaries to, enter into any Sale and Leaseback Transaction; *provided* that the Company or any Restricted Subsidiary may enter into a Sale and Leaseback Transaction if:

- (1) the Company or such Restricted Subsidiary could have (a) Incurred Indebtedness in an amount equal to the Attributable Indebtedness relating to such Sale and Leaseback Transaction pursuant to the covenant described above under “— Limitation on Indebtedness and Preferred Stock” and (b) incurred a Lien to secure such Indebtedness pursuant to the covenant described above under “— Limitation on Liens”, in which case, the corresponding Indebtedness and Lien will be deemed incurred pursuant to those provisions;
- (2) the gross cash proceeds of that Sale and Leaseback Transaction are at least equal to the Fair Market Value of the property that is the subject of such Sale and Leaseback Transaction; and
- (3) the transfer of assets in that Sale and Leaseback Transaction is permitted by, and the Company or such Restricted Subsidiary applies the proceeds of such transaction in compliance with, the covenant described below under “— Limitation on Asset Sales.”

Limitation on Asset Sales

The Company will not, and will not permit any Restricted Subsidiary to, consummate any Asset Sale, unless:

- (1) no Default shall have occurred and be continuing or would occur as a result of such Asset Sale;
- (2) the consideration received by the Company or such Restricted Subsidiary, as the case may be, is at least equal to the Fair Market Value of the assets sold or disposed of; and
- (3) at least 75% of the consideration received consists of cash, Temporary Cash Investments or Replacement Assets; *provided* that in the case of an Asset Sale in which the Company or such Restricted Subsidiary receives Replacement Assets involving aggregate consideration in excess of US\$10.0 million (or the Dollar Equivalent thereof), the Company shall deliver to the Trustee an opinion as to the fairness to the Company or such Restricted Subsidiary of such Asset Sale from a financial point of view issued by an accounting, appraisal or investment banking firm of international standing. For purposes of this provision, each of the following will be deemed to be cash:
 - (a) any liabilities, as shown on the Company’s most recent consolidated balance sheet, of the Company or any Restricted Subsidiary (other than contingent liabilities and liabilities that are by their terms subordinated to the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee) that are assumed by the transferee of any such assets pursuant to a customary assumption, assignment, novation or similar agreement that releases the Company or such Restricted Subsidiary from further liability; and

- (b) any securities, notes or other obligations received by the Company or any Restricted Subsidiary from such transferee that are promptly, but in any event within 30 days of closing, converted by the Company or such Restricted Subsidiary into cash, to the extent of the cash received in that conversion.

Within 360 days after the receipt of any Net Cash Proceeds from an Asset Sale, the Company (or any Restricted Subsidiary) may apply such Net Cash Proceeds to:

- (1) permanently repay Senior Indebtedness of the Company or a Subsidiary Guarantor or any Indebtedness of a Restricted Subsidiary that is not a Subsidiary Guarantor (and, if such Senior Indebtedness repaid is revolving credit Indebtedness, to correspondingly reduce commitments with respect thereto) in each case owing to a Person other than the Company or a Restricted Subsidiary; or
- (2) acquire Replacement Assets; or
- (3) make an Investment in cash or Temporary Cash Investments pending application of such Net Cash Proceeds as set forth in clause (1) or (2) above.

Any Net Cash Proceeds from Asset Sales that are not applied or invested as provided in clauses (1) and (2) in the immediately preceding paragraph will constitute “**Excess Proceeds.**” Excess Proceeds of less than US\$10.0 million (or the Dollar Equivalent thereof) will be carried forward and accumulated. When accumulated Excess Proceeds exceed US\$10.0 million (or the Dollar Equivalent thereof), within 10 days thereof, the Company must make an Offer to Purchase Notes having a principal amount equal to:

- (1) accumulated Excess Proceeds, multiplied by
- (2) a fraction (x) the numerator of which is equal to the outstanding principal amount of the Notes and (y) the denominator of which is equal to the outstanding principal amount of the Notes and all *pari passu* Indebtedness similarly required to be repaid, redeemed or tendered for in connection with the Asset Sale,

rounded down to the nearest US\$1,000.

The offer price in any Offer to Purchase will be equal to 100% of the principal amount of the Notes plus accrued and unpaid interest to the date of purchase, and will be payable in cash.

If any Excess Proceeds remain after consummation of an Offer to Purchase, the Company may use those Excess Proceeds for any purpose not otherwise prohibited by the Indenture. If the aggregate principal amount of Notes (and any other *pari passu* Indebtedness) tendered in such Offer to Purchase exceeds the amount of Excess Proceeds, the Notes (and such other *pari passu* Indebtedness) will be purchased on a pro rata basis (with adjustments to prevent fractional Notes) subject to the procedure of the clearing systems. Upon completion of each Offer to Purchase, the amount of Excess Proceeds will be reset at zero.

Limitation on the Company’s Business Activities

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, engage in any business other than Permitted Businesses; *provided*, however, that the Company or any Restricted Subsidiary may own Capital Stock of an Unrestricted Subsidiary or joint venture or other entity that is engaged in a business other than a Permitted Business as long as any Investment therein was not prohibited when made by the covenant described under “— Limitation on Restricted Payments.”

Use of Proceeds

The Company will not, and will not permit any Restricted Subsidiary to, use the net proceeds from the sale of the Notes, in any amount, for any purpose other than (1) in the approximate amounts and for the purposes specified, including any adjustment in response to changes in acquisition or development plans as contemplated, under the caption “Use of Proceeds” in this offering memorandum and (2) pending the application of all of such net proceeds in such manner, to invest the portion of such net proceeds not yet so applied in Temporary Cash Investments.

Designation of Restricted and Unrestricted Subsidiaries

The Board of Directors may designate any Restricted Subsidiary to be an Unrestricted Subsidiary; *provided* that (1) no Default shall have occurred and be continuing at the time of or after giving effect to such designation; (2) neither the Company nor any Restricted Subsidiary provides credit support (other than any Guarantee in compliance with clause (6) below) for the Indebtedness of such Restricted Subsidiary; (3) such Restricted Subsidiary has no outstanding Indebtedness that could trigger a cross default to the Indebtedness of the Company; (4) such Restricted Subsidiary does not own any Disqualified Stock of the Company or Disqualified or Preferred Stock of another Restricted Subsidiary or hold any Indebtedness of, or any Lien on any property of, the Company or any Restricted Subsidiary, if such Disqualified or Preferred Stock or Indebtedness could not be Incurred under the covenant described under “— Limitation on Indebtedness and Preferred Stock” or such Lien would violate the covenant described under “— Limitation on Liens”; and (5) such Restricted Subsidiary does not own any Voting Stock of another Restricted Subsidiary, and all of its Subsidiaries are Unrestricted Subsidiaries or are being concurrently designated to be Unrestricted Subsidiaries in accordance with this paragraph; and (6) the Investment deemed to have been made thereby in such newly-designated Unrestricted Subsidiary and each other newly-designated Unrestricted Subsidiary being concurrently redesignated would be permitted to be made by the covenant described under “— Limitation on Restricted Payments.”

Notwithstanding the foregoing, each of the Pledge Entities shall remain a Restricted Subsidiary for as long as any Note is outstanding.

The Board of Directors may designate any Unrestricted Subsidiary to be a Restricted Subsidiary; *provided* that (1) no Default shall have occurred and be continuing at the time of or after giving effect to such designation; (2) any Indebtedness of such Unrestricted Subsidiary outstanding at the time of such designation which will be deemed to have been Incurred by such newly-designated Restricted Subsidiary as a result of such designation would be permitted to be Incurred by the covenant described under “— Limitation on Indebtedness and Preferred Stock”; (3) any Lien on the property of such Unrestricted Subsidiary at the time of such designation which will be deemed to have been incurred by such newly-designated Restricted Subsidiary as a result of such designation would be permitted to be incurred by the covenant described under “— Limitation on Liens”; (4) such Unrestricted Subsidiary is not a Subsidiary of another Unrestricted Subsidiary (that is not concurrently being designated as a Restricted Subsidiary); and (5) if such Restricted Subsidiary is not organized under the laws of the PRC and not a Non-Guarantor Subsidiary, such Restricted Subsidiary shall upon such designation execute and deliver to the Trustee a supplemental indenture to the Indenture by which such Restricted Subsidiary shall become a Subsidiary Guarantor or a JV Subsidiary Guarantor to the extent required under “— The Subsidiary Guarantees and the JV Subsidiary Guarantees.”

Government Approvals and Licenses; Compliance with Law

The Company will, and will cause each Restricted Subsidiary to, (1) obtain and maintain in full force and effect all governmental approvals, authorizations, consents, permits, concessions and licenses as are necessary to engage in the Permitted Businesses; (2) preserve and maintain good and valid title to its properties and assets (including land-use rights) free and clear of any Liens other than Permitted Liens; and (3) comply with all laws, regulations, orders, judgments and decrees of any governmental body, except to the extent that failure so to obtain, maintain, preserve and comply would not reasonably

be expected to have a material adverse effect on (a) the business, results of operations or prospects of the Company and its Restricted Subsidiaries, taken as a whole, or (b) the ability of the Company, any Subsidiary Guarantor, any JV Subsidiary Guarantor or any Pledgor to perform its obligations under the Notes, the relevant Subsidiary Guarantee, the relevant JV Subsidiary Guarantee, the Indenture or the Security Documents.

The Company has completed the registration of foreign debt in respect of the offering described in this offering memorandum (or, in the case of Additional Notes, the offering document relating to the sale of such Additional Notes) and obtained a certificate of registration from the NDRC in accordance with the NDRC Notice. The Company will file or cause to be filed with the NDRC or its local branch information of the offering described in this offering memorandum after the Original Issue Date (or, in the case of Additional Notes, after the issue date of such Additional Notes) in accordance with and within the time period prescribed by the NDRC Notice.

Anti-Layering

The Company will not Incur, and will not permit any Subsidiary Guarantor or JV Subsidiary Guarantor to Incur, any Indebtedness if such Indebtedness is contractually subordinated in right of payment to any other Indebtedness of the Company, such Subsidiary Guarantor or such JV Subsidiary Guarantor, as the case may be, unless such Indebtedness is also contractually subordinated in right of payment to the Notes, the applicable Subsidiary Guarantee or the applicable JV Subsidiary Guarantee, on substantially identical terms. This does not apply to distinctions between categories of Indebtedness that exist by reason of any Liens or Guarantees securing or in favor of some but not all of such Indebtedness.

Suspension of Certain Covenants

If, on any date following the date of the Indenture, the Notes have a rating of Investment Grade from the two of the three Rating Agencies and no Default has occurred and is continuing, then, beginning on that day and continuing until such time, if any, at which the Notes cease to have a rating of Investment Grade from any of the Rating Agencies (a “**Suspension Event**”), the provisions of the Indenture summarized under the following captions will be suspended:

- (1) “— Certain Covenants — Limitation on Indebtedness and Preferred Stock”;
- (2) “— Certain Covenants — Limitation on Restricted Payments”;
- (3) “— Certain Covenants — Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries”;
- (4) “— Certain Covenants — Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries”;
- (5) “— Certain Covenants — Limitation on Issuances of Guarantees by Restricted Subsidiaries”;
- (6) “— Certain Covenants — Limitation on the Company’s Business Activities”;
- (7) “— Certain Covenants — Limitation on Sale and Leaseback Transactions”; and
- (8) “— Certain Covenants — Limitation on Asset Sales.”

During any period that the foregoing covenants have been suspended, the Board of Directors may not designate any of the Restricted Subsidiaries as Unrestricted Subsidiaries pursuant to the covenant described under “— Certain Covenants — Designation of Restricted and Unrestricted Subsidiaries” or the definition of “Unrestricted Subsidiary.”

Such covenants will be reinstated and apply according to their terms as of and from the first day on which a Suspension Event ceases to be in effect. Such covenants will not, however, be of any effect with regard to actions of the Company or any Restricted Subsidiary properly taken in compliance with the provisions of the Indenture during the continuance of the Suspension Event, and following reinstatement the calculations under the covenant described under “— Certain Covenants — Limitation on Restricted Payments” will be made as if such covenant had been in effect since the date of the Indenture except that no Default will be deemed to have occurred solely by reason of a Restricted Payment made while that covenant was suspended. There can be no assurance that the Notes will ever achieve a rating of Investment Grade or that any such rating will be maintained.

Provision of Financial Statements and Reports

- (1) So long as any of the Notes remain outstanding, the Company will file with the Trustee and furnish to the Holders upon request, as soon as they are available but in any event not more than 10 calendar days after they are filed with The Stock Exchange of Hong Kong Limited or any other recognized exchange on which the Company’s common shares are at any time listed for trading, true and correct copies of any financial or other report in the English language filed with such exchange; *provided* that if at any time the Common Stock of the Company ceases to be listed for trading on a recognized stock exchange, the Company will file with the Trustee and furnish to the Holders:
 - (a) as soon as they are available, but in any event within 90 calendar days after the end of the fiscal year of the Company, copies of its financial statements (on a consolidated basis) in respect of such financial year (including a statement of income, balance sheet and cash flow statement) audited by a member firm of an internationally-recognized firm of independent accountants;
 - (b) as soon as they are available, but in any event within 45 calendar days after the end of the second financial quarter of the Company, copies of its financial statements (on a consolidated basis) in respect of such half-year period (including a statement of income, balance sheet and cash flow statement) reviewed by a member firm of an internationally-recognized firm of independent accountants; and
 - (c) as soon as they are available, but in any event within 45 calendar days after the end of each of the first and third financial quarter of the Company, copies of its unaudited financial statements (on a consolidated basis), including a statement of income, balance sheet and cash flow statement, prepared on a basis consistent with the audited financial statements of the Company together with a certificate signed by the person then authorized to sign financial statements on behalf of the Company to the effect that such financial statements are true in all material respects and present fairly the financial position of the Company as at the end of, and the results of its operations for, the relevant quarterly period.
- (2) In addition, so long as any of the Notes remain outstanding, the Company will provide to the Trustee (a) within 120 days after the close of each fiscal year, an Officers’ Certificate stating the Fixed Charge Coverage Ratio with respect to the two most recent fiscal semi-annual periods and showing in reasonable detail the calculation of the Fixed Charge Coverage Ratio, including the arithmetic computations of each component of the Fixed Charge Coverage Ratio, with a certificate from the Company’s external auditors verifying the accuracy and correctness of the calculation and arithmetic computation; *provided* that, the Company shall not be required to provide such auditor certification if its external auditors refuse to provide such certification as a result of a policy of such external auditors not to provide such certification; and (b) as soon as possible and in any event within 30 days after the Company becomes aware or should reasonably become aware of the occurrence of a Default, an Officers’ Certificate setting forth the details of the Default, and the action which the Company proposes to take with respect thereto.

Events of Default

The following events will be defined as “Events of Default” in the Indenture:

- (1) default in the payment of principal of (or premium, if any, on) the Notes when the same becomes due and payable at maturity, upon acceleration, redemption or otherwise;
- (2) default in the payment of interest or Additional Amounts on any Note when the same becomes due and payable, and such default continues for a period of 30 consecutive days;
- (3) default in the performance or breach of the provisions of the covenants described under “— Consolidation, Merger and Sale of Assets”, the failure by the Company to repurchase the Notes in the manner described under the caption “— Repurchase of Notes by the Company at the Option of the Holders” or make or consummate an Offer to Purchase in the manner described under the captions “— Repurchase of Notes upon an Investor Put Triggering Event,” “— Limitation on Asset Sales,” “— Security,” “— Limitation on Reduction of Capital Contribution and Dividends Distribution” or any failure by any Pledgor to create a first-priority Lien on the Collateral (subject to any Permitted Lien specified in clause (1) or (30) of the definition of “Permitted Liens”) in accordance with the provisions described under the caption “— Security,” or perform its obligations with respect to the LTV Ratio in accordance with the provisions described in the fourth or fifth paragraph under the caption “— Security”;
- (4) the Company, any Restricted Subsidiary, any Pledgor or any Personal Guarantor defaults in the performance of or breaches any other covenant or agreement in the Indenture, any Security Document, any Personal Guarantee or under the Notes (other than a default specified in clause (1), (2) or (3) above or (10) below) and such default or breach continues for a period of 30 consecutive days after written notice by the Trustee or the Holders of 25% or more in aggregate principal amount of the Notes;
- (5) there occurs with respect to any Indebtedness of the Company or any Restricted Subsidiary having an outstanding principal amount of US\$10 million (or the Dollar Equivalent thereof) or more in the aggregate for all such Indebtedness of all such Persons, whether such Indebtedness now exists or shall hereafter be created, (a) an event of default that has caused the holder thereof to declare such Indebtedness to be due and payable prior to its Stated Maturity and/or (b) the failure to make a principal payment when due;
- (6) one or more final judgments or orders for the payment of money are rendered against the Company or any of its Restricted Subsidiaries and are not paid or discharged, and there is a period of 60 consecutive days following entry of the final judgment or order that causes the aggregate amount for all such final judgments or orders outstanding and not paid or discharged against all such Persons to exceed US\$10 million (or the Dollar Equivalent thereof) (in excess of amounts which the Company’s insurance carriers have agreed to pay under applicable policies) during which a stay of enforcement, by reason of a pending appeal or otherwise, is not in effect;
- (7) an involuntary case or other proceeding is commenced against the Company or any Restricted Subsidiary with respect to it or its debts under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect seeking the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Company or any Restricted Subsidiary or for any substantial part of the property and assets of the Company or any Restricted Subsidiary and such involuntary case or other proceeding remains undismissed and unstayed for a period of 60 consecutive days; or an order for relief is entered against the Company or any Restricted Subsidiary under any applicable bankruptcy, insolvency or other similar law as now or hereafter in effect;

- (8) the Company or any Restricted Subsidiary (a) commences a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or consents to the entry of an order for relief in an involuntary case under any such law, (b) consents to the appointment of or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Company or any Restricted Subsidiary or for all or substantially all of the property and assets of the Company or any Restricted Subsidiary or (c) effects any general assignment for the benefit of creditors (other than, in each case under (b), any of the foregoing that arises from any solvent liquidation or restructuring of a Restricted Subsidiary in the ordinary course of business that shall result in the net assets of such Restricted Subsidiary being transferred to or otherwise vested in the Company or any Restricted Subsidiary on a pro rata basis or on a basis more favorable to the Company);
- (9) any Subsidiary Guarantor or JV Subsidiary Guarantor denies or disaffirms in writing its obligations under its Subsidiary Guarantee or JV Subsidiary Guarantee or, except as permitted by the Indenture, any Subsidiary Guarantee or JV Subsidiary Guarantee is determined to be unenforceable or invalid or shall for any reason cease to be in full force and effect;
- (10) any default by any Pledgor in the performance of any of its obligations under the Security Documents that adversely affects the enforceability, validity, perfection or priority of the applicable Lien on the Collateral or that adversely affects the condition or value of the Collateral;
- (11) any Pledgor denies or disaffirms its obligations under any Security Document or, other than in accordance with the Indenture and the Security Documents, any Security Document ceases to be or is not in full force and effect or the Collateral Agent ceases to have a first-priority Lien over the Collateral (subject to any Permitted Lien specified in clause (1) or (30) of the definition of “Permitted Liens”); or
- (12) any Personal Guarantor denies or disaffirms his or her obligations under the relevant Personal Guarantee, or any Personal Guarantee, other than in accordance with its terms, ceases to be in full force and effect; *provided, however*, that a Personal Guarantee shall not cease to be in full force and effect for purposes of this clause (12) solely due to any absence of the relevant Regulatory Approvals if such Personal Guarantor has used, or is in the process of using, his or her best efforts to obtain such Regulatory Approvals in compliance with the covenant described under “— Personal Guarantees,” the relevant Personal Guarantee and the Indenture.

If an Event of Default (other than an Event of Default specified in clause (7) or (8) above) occurs and is continuing under the Indenture, the Trustee or the Holders of at least 25% in aggregate principal amount of the Notes then outstanding, by written notice to the Company (and to the Trustee if such notice is given by the Holders), may, and the Trustee at the request of such Holders shall (subject to being indemnified and/or secured by the Holders to its satisfaction) declare the principal of, premium, if any, and accrued and unpaid interest on the Notes to be immediately due and payable. Upon a declaration of acceleration, such principal of, premium, if any, and accrued and unpaid interest shall be immediately due and payable. If an Event of Default specified in clause (7) or (8) above occurs with respect to the Company or any Restricted Subsidiary, the principal of, premium, if any, and accrued and unpaid interest on the Notes then outstanding shall automatically become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holder.

The Holders of at least 75% in principal amount of the outstanding Notes by written notice to the Company and to the Trustee may on behalf of the Holders waive all past defaults and rescind and annul a declaration of acceleration and its consequences if:

- (1) all existing Events of Default, other than the non-payment of the principal of, premium, if any, and interest on the Notes that have become due solely by such declaration of acceleration, have been cured or waived, and

- (2) the rescission would not conflict with any judgment or decree of a court of competent jurisdiction.

Upon such waiver, the Default will cease to exist, and any Event of Default arising therefrom will be deemed to have been cured, but no such waiver will extend to any subsequent or other Default or impair any right consequent thereon.

If an Event of Default occurs and is continuing, the Trustee may at its sole discretion and without further notice pursue, in its own name or as trustee of an express trust, any available remedy by proceeding at law or in equity to collect the payment of principal of and interest on the Notes or to enforce the performance of any provision of the Notes, the Subsidiary Guarantees, the JV Subsidiary Guarantees, the Personal Guarantees, the Indenture or the Security Documents, but it will not be bound to take any such proceeding unless (i) it shall have been so requested in writing by the Holders of at least 25% in aggregate principal amount of the Notes then outstanding and (ii) it shall have been indemnified, secured and/or pre-funded to its satisfaction. The Trustee may maintain a proceeding even if it does not possess any of the Notes or does not produce any of them in the proceeding. In addition, if an Event of Default occurs and is continuing under the Indenture, the Trustee may, and shall upon written direction of the Holders of at least 25% in aggregate principal amount of outstanding Notes subject to being indemnified and/or pre-funding and/or secured to its satisfaction (i) give the Collateral Agent a written notice of the occurrence of such continuing Event of Default and (ii) instruct the Collateral Agent to foreclose on the Collateral in accordance with the terms of the Security Documents and the Indenture and take such further action on behalf of the Holders with respect to the Collateral as the Trustee deems appropriate. See “— Security.”

The Holders of at least 75% in aggregate principal amount of the outstanding Notes may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee. However, the Trustee may refuse to follow any direction that conflicts with law or the Indenture, that may involve the Trustee in personal liability, or that the Trustee determines in good faith may be unduly prejudicial to the rights of Holders not joining in the giving of such direction and may take any other action it deems proper that is not inconsistent with any such direction received from Holders.

A Holder may not institute any proceeding, judicial or otherwise, with respect to the Indenture, the Notes, the Subsidiary Guarantees, the JV Subsidiary Guarantees, the Personal Guarantees or the Security Documents, or for the appointment of a receiver or trustee, or for any other remedy under the Indenture, the Notes, the Subsidiary Guarantees, the JV Subsidiary Guarantees, the Personal Guarantees or the Security Documents, unless:

- (1) the Holder has previously given the Trustee written notice of a continuing Event of Default;
- (2) the Holders of at least 25% in aggregate principal amount of outstanding Notes make a written request to the Trustee to pursue the remedy;
- (3) such Holder or Holders offer the Trustee indemnity, security and/or pre-funding satisfactory to the Trustee against any costs, liability or expense to be incurred in compliance with such request;
- (4) the Trustee does not comply with the request within 60 days after receipt of the request and the offer of indemnity; and
- (5) during such 60-day period, the Holders of a majority in aggregate principal amount of the outstanding Notes do not give the Trustee a direction that is inconsistent with the request.

However, such limitations do not apply to the right of any Holder to receive payment of the principal of, premium, if any, or interest on, such Note, Subsidiary Guarantee, JV Subsidiary Guarantee or Personal Guarantee or to bring suit for the enforcement of any such payment, on or after the due date expressed in the Notes, which right shall not be impaired or affected without the consent of the Holder.

If the Trustee collects any money pursuant to the Indenture, the Notes, the Subsidiary Guarantees, the JV Subsidiary Guarantees or the Personal Guarantees, it shall pay out the money in the following order:

First, to the Trustee and the Agents to the extent necessary to reimburse the Trustee and the Agents for any expenses (including expenses of its counsel) properly incurred in connection with the enforcement of any rights or remedies under the Indenture or the collection or distribution of such amounts held or realized and any fees and expenses properly incurred in connection with carrying out their functions under the Indenture and the Agency Agreement (including expenses of its counsel);

Second, to the Trustee for the benefit of Holders; and

Third, any surplus remaining after such payments will be paid to the Company or to whomever may be lawfully entitled thereto.

Officers of the Company must certify, on or before a date not more than 120 days after the end of each fiscal year, that a review has been conducted of the activities of the Company and its Restricted Subsidiaries and the Company's and its Restricted Subsidiaries performance under the Indenture and that the Company has fulfilled all obligations thereunder and that there has been no potential Event of Default or Event of Default, or, if there has been a default in the fulfillment of any such obligation, specifying each such default and the nature and status thereof. Officers of the Company must promptly notify the Trustee of any potential Event of Default or any other default or defaults in the performance of any covenants or agreements under the Indenture and what action the Company is taking or proposes to take with respect thereto. The Trustee and the Agents shall not be required to take any steps to ascertain whether an Event of Default or any event which could lead to the occurrence of an Event of Default has occurred and shall be entitled to assume that no such event has occurred until they have received express written notice to the contrary from the Company. See "— Provision of Financial Statements and Reports" and "— Concerning the Trustee and Agents."

Consolidation, Merger and Sale of Assets

The Company will not consolidate with, merge with or into another Person, permit any Person to merge with or into it, or sell, convey, transfer, lease or otherwise dispose of all or substantially all of its and its Restricted Subsidiaries' properties and assets (computed on a consolidated basis) (as an entirety or substantially an entirety in one transaction or a series of related transactions), unless:

- (1) the Company shall be the continuing Person, or the Person (if other than it) formed by such consolidation or merger, or with or into which the Company consolidated or merged, or that acquired or leased such property and assets (the "**Surviving Person**") shall be a corporation organized and validly existing under the laws of the Cayman Islands, Hong Kong, Bermuda or the British Virgin Islands and shall expressly assume, by a supplemental indenture to the Indenture, executed and delivered to the Trustee, all the obligations of the Company under the Indenture and the Notes, including the obligation to pay Additional Amounts, and the Indenture and the Notes shall remain in full force and effect;
- (2) immediately after giving effect to such transaction, no Default shall have occurred and be continuing;

- (3) immediately after giving effect to such transaction on a pro forma basis, the Company or the Surviving Person, as the case may be, shall have a Consolidated Net Worth equal to or greater than the Consolidated Net Worth of the Company immediately prior to such transaction;
- (4) immediately after giving effect to such transaction on a pro forma basis, the Company or the Surviving Person, as the case may be, could Incur at least US\$1.00 of Indebtedness under the proviso in part (1) of the covenant described under “— Limitation on Indebtedness and Preferred Stock”;
- (5) the Company delivers to the Trustee (x) an Officers’ Certificate (attaching the arithmetic computations to demonstrate compliance with clauses (3) and (4) of this paragraph) and (y) an Opinion of Counsel, in each case stating that such consolidation, merger or transfer and the relevant supplemental indenture complies with this covenant and that all conditions precedent provided for in the Indenture relating to such transaction have been complied with;
- (6) each Subsidiary Guarantor and JV Subsidiary Guarantor, unless such Subsidiary Guarantor or JV Subsidiary Guarantor is the Person with which the Company has entered into a transaction described under the caption “— Consolidation, Merger and Sale of Assets”, shall execute and deliver a supplemental indenture to the Indenture confirming that its Subsidiary Guarantee or JV Subsidiary Guarantee, as applicable, shall apply to the obligations of the Company or the Surviving Person in accordance with the Notes and the Indenture; and
- (7) no Rating Decline shall have occurred.

No Subsidiary Guarantor or JV Subsidiary Guarantor will consolidate with, merge with or into another Person, permit any Person to merge with or into it, or sell, convey, transfer, lease or otherwise dispose of all or substantially all of its and its Restricted Subsidiaries’ properties and assets (computed on a consolidated basis) (as an entirety or substantially an entirety in one transaction or a series of related transactions) to another Person (other than to the Company or another Subsidiary Guarantor or, in the case of a JV Subsidiary Guarantor, other than to another JV Subsidiary Guarantor, the Company or a Subsidiary Guarantor), unless:

- (1) such Subsidiary Guarantor or JV Subsidiary Guarantor shall be the continuing Person, or the Person (if other than it) formed by such consolidation or merger, or with or into which the Company consolidated or merged, or that acquired or leased such property and assets shall be the Company or another Subsidiary Guarantor or shall become a Subsidiary Guarantor concurrently with the transaction (or, in the case of a JV Subsidiary Guarantor, another JV Subsidiary Guarantor, the Company or a Subsidiary Guarantor); and shall expressly assume, by a supplemental indenture to the Indenture, executed and delivered to the Trustee, all the obligations of such Subsidiary Guarantor or JV Subsidiary Guarantor under the Indenture and the Notes, as the case may be, including the obligation to pay Additional Amounts, and the Indenture, and the Notes shall remain in full force and effect;
- (2) immediately after giving effect to such transaction, no Default shall have occurred and be continuing;
- (3) immediately after giving effect to such transaction on a pro forma basis, the Company shall have a Consolidated Net Worth equal to or greater than the Consolidated Net Worth of the Company immediately prior to such transaction;
- (4) immediately after giving effect to such transaction on a pro forma basis, the Company could Incur at least US\$1.00 of Indebtedness under the proviso in part (1) of the covenant described under “— Limitation on Indebtedness and Preferred Stock”;

- (5) the Company delivers to the Trustee (x) an Officers' Certificate (attaching the arithmetic computations to demonstrate compliance with clauses (3) and (4) of this paragraph) and (y) an Opinion of Counsel, in each case stating that such consolidation, merger or transfer and the relevant supplemental indenture complies with this provision and that all conditions precedent provided for in the Indenture relating to such transaction have been complied with; and
- (6) no Rating Decline shall have occurred,

provided that this paragraph shall not apply to any sale or other disposition that complies with the “— Limitation on Asset Sales” covenant or any Subsidiary Guarantor or JV Subsidiary Guarantor whose Subsidiary Guarantee or JV Subsidiary Guarantee, as the case may be, is unconditionally released in accordance with the provisions described under “— The Subsidiary Guarantees — Release of the Subsidiary Guarantees and the JV Subsidiary Guarantees.”

Although there is a limited body of case law interpreting the phrase “substantially all”, there is no precise established definition of the phrase under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve “all or substantially all” of the property or assets of a Person.

The foregoing requirements shall not apply to a consolidation or merger of any Subsidiary Guarantor or JV Subsidiary Guarantor with and into the Company or any other Subsidiary Guarantor or JV Subsidiary Guarantor, so long as the Company or such Subsidiary Guarantor or JV Subsidiary Guarantor survives such consolidation or merger.

The foregoing provisions would not necessarily afford Holders protection in the event of highly-leveraged or other transactions involving the Company, the Subsidiary Guarantors or the JV Subsidiary Guarantors that may adversely affect Holders.

No Payments for Consents

The Company will not, and shall not permit any of its Subsidiaries to, directly or indirectly, pay or cause to be paid any consideration, whether by way of interest, fee or otherwise, to any Holder for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the Indenture or the Notes unless such consideration is offered to be paid or is paid to all Holders that consent, waive or agree to amend such term or provision within the time period set forth in the solicitation documents relating to such consent, waiver or amendment. Notwithstanding the foregoing, in any offer or payment of consideration for, or as an inducement to, any consent, waiver or amendment of any of the terms or provisions of the Indenture or the Notes in connection with an exchange or tender offer, the Company and any Restricted Subsidiary may exclude (i) Holders or beneficial owners of the Notes that are not “Qualified Institutional Buyers” as defined in Rule 144A under the Securities Act, and (ii) Holders or beneficial owners of the Notes in any jurisdiction where the inclusion of such Holders or beneficial owners would require the Company or any Restricted Subsidiary to comply with the registration requirements or other similar requirements under any securities laws of such jurisdiction, or the solicitation of such consent, waiver or amendment from, or the granting of such consent or waiver, or the approval of such amendment by, Holders or beneficial owners in such jurisdiction would be unlawful, in each case as determined by the Company in its sole discretion.

Defeasance

Defeasance and Discharge

The Indenture will provide that the Company will be deemed to have paid and will be discharged from any and all obligations in respect of the Notes on the 183rd day after the deposit referred to below, and the provisions of the Indenture will no longer be in effect with respect to the Notes (except for, among other matters, certain obligations to register the transfer or exchange of the Notes, to replace stolen, lost or mutilated Notes, to maintain paying agencies, to hold monies for payment in trust and to pay Additional Amounts) if, among other things:

- (1) the Company (a) has deposited with the Trustee (or its agent) or to their order in trust and the Trustee may further deposit in another account for the company, money and/or U.S. Government Obligations or any combination thereof that through the payment of interest and principal in respect thereof in accordance with their terms will provide money in an amount sufficient to pay the principal of, premium, if any, and accrued interest on the Notes on the Stated Maturity for such payments in accordance with the terms of the Indenture and the Notes and (b) delivers to the Trustee an Opinion of Counsel or a certificate of an internationally-recognized firm of independent accountants to the effect that the amount deposited by the Company is sufficient to provide payment for the principal of, premium, if any, and accrued interest on, the Notes on the Stated Maturity for such payment in accordance with the terms of the Indenture;
- (2) the Company has delivered to the Trustee an Opinion of Counsel from a firm of recognized international standing to the effect that the creation of the defeasance trust does not violate the U.S. Investment Company Act of 1940, as amended, and after the passage of 123 days following the deposit, the trust fund will not be subject to the effect of Section 547 of the United States Bankruptcy Code or Section 15 of the New York Debtor and Creditor Law; and
- (3) immediately after giving effect to such deposit on a pro forma basis, no Event of Default, or event that after the giving of notice or lapse of time or both would become an Event of Default, shall have occurred and be continuing on the date of such deposit or during the period ending on the 183rd day after the date of such deposit, and such defeasance shall not result in a breach or violation of, or constitute a default under, any other agreement or instrument to which the Company or any of its Restricted Subsidiaries is a party or by which the Company or any of its Restricted Subsidiaries is bound.

In the case of either discharge or defeasance of the Notes, the Subsidiary Guarantees, JV Subsidiary Guarantees, the Share Charges and the Personal Guarantees will terminate.

Defeasance of Certain Covenants

The Indenture will further provide that the provisions of the Indenture applicable to the Notes will no longer be in effect with respect to clauses (3), (4), (5)(x) and (7) under the first paragraph, and clauses (3), (4), (5)(x) and (6) under the second paragraph under “— Consolidation, Merger and Sale of Assets” and all the covenants described herein under “— Certain Covenants”, other than as described under “— Certain Covenants — Government Approvals and Licenses; Compliance with Law” and “— Certain Covenants-Anti-Layering”, clause (3) under “Events of Default” with respect to clauses (3), (4), (5)(x) and (7) under the first paragraph, and clauses (3), (4), (5)(x) and (6) under the second paragraph under “Consolidation, Merger and Sale of Assets” and with respect to the other events set forth in such clause, clause (4) under “Events of Default” with respect to such other covenants and clauses (5) and (6) under “Events of Default” shall be deemed not to be Events of Default upon, among other things, the deposit with the Trustee (or its agent) or to their order, in trust, of money, U.S. Government Obligations or a combination thereof that through the payment of interest and principal in respect thereof in accordance with their terms will provide money in an amount sufficient to pay the principal of, premium, if any, and accrued interest on the Notes on the Stated Maturity of such payments in accordance with the terms of the Indenture and the Notes, and the satisfaction of the provisions described in clause (2) of the preceding paragraph.

Defeasance and Certain Other Events of Default

In the event that the Company exercises its option to omit compliance with certain covenants and provisions of the Indenture as described in the immediately preceding paragraph and the Notes are declared due and payable because of the occurrence of an Event of Default that remains applicable, the amount of money and/or U.S. Government Obligations on deposit with the Trustee (or its agent) or to their order will be sufficient to pay amounts due on the Notes at the time of their Stated Maturity but may not be sufficient to pay amounts due on the Notes at the time of the acceleration resulting from such Event of Default. However, the Company will remain liable for such payments.

Satisfaction and Discharge

The Indenture will be discharged and will cease to be of further effect as to all Notes issued thereunder, when:

- (1) either:
 - (a) all Notes that have been authenticated, except lost, stolen or destroyed Notes that have been replaced or paid and Notes for whose payment money has been deposited in trust and thereafter repaid to the Company, have been delivered to the Trustee for cancellation; or
 - (b) all Notes that have not been delivered to the Trustee for cancellation have become due and payable by reason of the mailing of a notice of redemption or otherwise or will become due and payable within one year and the Company has irrevocably deposited or caused to be deposited with the Trustee as trust funds in trust solely for the benefit of the Holders of the Notes, cash in U.S. dollars, non-callable U.S. Government Obligations, or a combination of cash in U.S. dollars and non-callable U.S. Government Obligations, in amounts as will be sufficient, without consideration of any reinvestment of interest, to pay and discharge the entire Indebtedness on the Notes not delivered to the applicable Trustee for cancellation for principal, premium, if any, and accrued interest to the date of maturity or redemption;
- (2) no Default or Event of Default has occurred and is continuing on the date of the deposit (other than a Default or Event of Default resulting from the borrowing of funds to be applied to such deposit and any similar and simultaneous deposit relating to other Indebtedness and, in each case, the granting of Liens in connection therewith) and such deposit will not result in a breach or violation of, or constitute a default under, any other instrument to which the Company or any Subsidiary Guarantor is a party or by which the Company or any Subsidiary Guarantor is bound;
- (3) the Company or any Subsidiary Guarantor has paid or caused to be paid all sums payable by it under the Indenture; and
- (4) the Company has delivered irrevocable instructions to the Trustee under the Indenture to apply the deposited money toward the payment of the Notes at maturity or on the redemption date, as the case may be.

In addition, the Company must deliver an Officers' Certificate of the Company and an Opinion of Counsel to the Trustee stating that all conditions precedent to satisfaction and discharge have been satisfied.

Amendments and Waivers

Amendments Without Consent of Holders

The Indenture (other than relating to the Collateral or the Personal Guarantees), the Notes, the Subsidiary Guarantee, the JV Subsidiary Guarantee (if any), the Security Documents or the Personal Guarantees may be amended, without the consent of any Holder, to:

- (1) cure any ambiguity, defect, omission or inconsistency in the Indenture, the Notes, the Subsidiary Guarantee, the JV Subsidiary Guarantee (if any), any Security Document or any Personal Guarantee, *provided however* that such amendment shall not adversely affect the interest of the Holders;
- (2) comply with the provisions described under “— Consolidation, Merger and Sale of Assets”;
- (3) evidence and provide for the acceptance of appointment by a successor Trustee;
- (4) add any Subsidiary Guarantor or JV Subsidiary Guarantor, or any Subsidiary Guarantee or JV Subsidiary Guarantee, or release any Subsidiary Guarantor or JV Subsidiary Guarantor from any Subsidiary Guarantee or JV Subsidiary Guarantee, as the case may be, as provided or permitted by the terms of the Indenture;
- (5) provide for the issuance of Additional Notes in accordance with the limitations set forth in the Indenture;
- (6) add any additional collateral to secure the Notes, any Subsidiary Guarantee, any JV Subsidiary Guarantee or any Personal Guarantee, including the sharing of collateral pursuant to the provisions described under “— Limitation on Liens”;
- (7) in any other case where a supplemental indenture to the Indenture is required or permitted to be entered into pursuant to the provisions of the Indenture without the consent of any Holder;
- (8) effect any changes to the Indenture in a manner necessary to comply with the procedures of Euroclear or Clearstream;
- (9) make any other change that does not materially and adversely affect the rights of any Holder;
or
- (10) conform the text of the Indenture, the Notes, the Subsidiary Guarantees, the JV Subsidiary Guarantees, the Security Documents or the Personal Guarantees to any provision of this “Description of the Notes” to the extent that such provision in this “Description of the Notes” was intended to be a verbatim recitation of a provision in the Indenture, the Notes, the Subsidiary Guarantees, the JV Subsidiary Guarantees, the Security Documents or the Personal Guarantees.

Amendments With Consent of Holders

The Indenture, the Notes, the Subsidiary Guarantee or the JV Subsidiary Guarantee (if any) may be modified or amended, and future compliance with any provision thereof may be waived, with the consent of the Holders of not less than 75% in aggregate principal amount of the outstanding Notes;

provided, however, that no modification, amendment or waiver may, without the consent of not less than 80% in aggregate principal amount of the outstanding Notes, amend, change or modify any provision of any Security Document relating to the Collateral, any Personal Guarantee or the Indenture relating to the Collateral or the Personal Guarantees, in a manner that adversely affects the Holders, except in accordance with the other provisions of the Indenture;

provided, further, however, that no such modification, amendment or waiver may, without the consent of each Holder affected thereby:

- (1) change the Stated Maturity of the principal of, or any installment of interest on, any Note;
- (2) reduce the principal amount of, or premium, if any, or interest on, any Note;
- (3) change the place, currency or time of payment of principal of, or premium, if any, or interest on, any Note;
- (4) impair the right to institute suit for the enforcement of any payment on or after the Stated Maturity (or, in the case of a redemption, on or after the redemption date) of any Note, any Subsidiary Guarantee or any JV Subsidiary Guarantee;
- (5) reduce the above-stated percentage of outstanding Notes the consent of whose Holders is necessary to modify or amend the Indenture;
- (6) waive a default in the payment of principal of, premium, if any, or interest on the Notes;
- (7) release any Subsidiary Guarantor or JV Subsidiary Guarantor from its Subsidiary Guarantee or JV Subsidiary Guarantee, as the case may be, except as provided in the Indenture;
- (8) reduce the percentage or aggregate principal amount of outstanding Notes the consent of whose Holders is necessary for waiver of compliance with certain provisions of the Indenture or for waiver of certain defaults;
- (9) amend, change or modify any Subsidiary Guarantee or JV Subsidiary Guarantee in a manner that adversely affects the Holders, except in accordance with the other provisions of the Indenture;
- (10) reduce the amount payable upon a Repurchase Offer or an Offer to Purchase with the Excess Proceeds from any Asset Sale or for the reduction in the Capital Contribution or the distribution of the Pledged Equity Dividends or the redemption of the Notes in relation to the LTV Ratio as described under the fifth paragraph under the caption “— Security” or, change the time or manner by which a Repurchase Offer or an Offer to Purchase with the Excess Proceeds or other proceeds from any Asset Sale or for the reduction in the Capital Contribution or the distribution of the Pledged Equity Dividends or the redemption of the Notes in relation to the LTV Ratio as described under the fifth paragraph under the caption “— Security” may be made or by which the Notes must be repurchased or redeemed pursuant to a Repurchase Offer or an Offer to Purchase with the Excess Proceeds or other proceeds from any Asset Sale or for the reduction in the Capital Contribution or the distribution of the Pledged Equity Dividends or the redemption of the Notes in relation to the LTV Ratio as described under the fifth paragraph under the caption “— Security,” unless with respect to a Repurchase Offer or an Offer to Purchase with the Excess Proceeds from any Asset Sale, such amendment, waiver or modification shall be in effect prior to the occurrence of an Investor Put Triggering Event or the event giving rise to the repurchase of the Notes under “— Limitation on Asset Sales”;
- (11) change the redemption date or the redemption price of the Notes from that stated under the captions “— Optional Redemption” or “— Redemption for Taxation Reasons”;
- (12) amend, change or modify the obligation of the Company or any Subsidiary Guarantor or any JV Subsidiary Guarantor to pay Additional Amounts;

- (13) amend, change or modify any provision of the Indenture or the related definition affecting the ranking of the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee in a manner which adversely affects the Holders; or
- (14) amend, change or modify the obligations of the Company or any Subsidiary Guarantor or any JV Subsidiary Guarantor under the captions “— Repurchase of Notes by the Company at the Option of the Holders” or “— Repurchase of Notes Upon an Investor Put Triggering Event” (including amending, changing or modifying the repurchase date or repurchase price of the Notes from that stated under such captions).

Unclaimed Money

Claims against the Company for the payment of principal of, premium, if any, or interest, on the Notes will become void unless presentation for payment is made as required in the Indenture within a period of six years.

No Personal Liability of Incorporators, Stockholders, Officers, Directors or Employees

No recourse for the payment of the principal of, premium, if any, or interest on any of the Notes or for any claim based thereon or otherwise in respect thereof, and no recourse under or upon any obligation, covenant or agreement of the Company, any of the Subsidiary Guarantors or any of the JV Subsidiary Guarantors in the Indenture, or in any of the Notes, the Subsidiary Guarantees or the JV Subsidiary Guarantees, or because of the creation of any Indebtedness represented thereby, shall be had against any incorporator, stockholder, officer, director, employee or controlling person of the Company, any of the Subsidiary Guarantors or JV Subsidiary Guarantors, or of any successor Person thereof. Each Holder, by accepting the Notes, waives and releases all such liability. The waiver and release are part of the consideration for the issuance of the Notes, the Subsidiary Guarantees and the JV Subsidiary Guarantees. Such waiver may not be effective to waive liabilities under the U.S. federal securities laws.

Concerning the Trustee and the Agents

Citicorp International Limited has been appointed as Trustee under the Indenture, Citibank, N.A., London Branch has been appointed as note registrar (the “**Note Registrar**”), and Citibank, N.A., London Branch has been appointed as paying agent (the “**Paying Agent**”) and transfer agent (the “**Transfer Agent**”), and together with the Note Registrar and the Paying Agent, the “**Agents**”) with regard to the Notes. Prior to the occurrence of an Event of Default, the Trustee will not be liable for the performance of such duties as are specifically set forth in the Indenture except to the extent of its own gross negligence or willful default. If an Event of Default has occurred and is continuing, the Trustee will be required to use the same degree of care and skill in its exercise of the rights and powers vested in it under the Indenture as a prudent person would exercise under the circumstances in the conduct of such person’s own affairs.

The Trustee will be under no obligation to exercise any rights or powers conferred under the Indenture for the benefit of the Holders unless such Holders have offered to the Trustee indemnity, security and/or pre-funding satisfactory to the Trustee against any loss, liability or expense.

The Notes provide the Trustee to take action on behalf of the Holders in certain circumstances, but only if the Trustee is indemnified to its satisfaction. It may not be possible for the Trustee to take certain actions, whether in relation to the Notes, and accordingly in such circumstances the Trustee will be unable to take such actions, notwithstanding the provision of an indemnity to it, and it will be for the Holders to take such actions directly.

The Trustee may refrain from taking any action in any jurisdiction if the taking of such action in that jurisdiction would, in its opinion, be contrary to any law of that jurisdiction, any directive or regulation of any agency of that jurisdiction or any other law applicable to the Trustee and may without

liability do anything which is, in its opinion, necessary to comply with any such law, directive or regulation. Furthermore, the Trustee may also refrain from taking such action if it would otherwise render it liable to any person in that jurisdiction or if, in its opinion based upon such legal advice, it would not have the power to do the relevant thing in that jurisdiction by virtue of any applicable law in that jurisdiction or if it is determined by any court or other competent authority in that jurisdiction that it does not have such power.

Neither the Trustee nor any of the Agents shall be under any duty to monitor or take any steps to ascertain whether any event or circumstance has happened or exists in relation to a Default, Event of Default, redemption, change of control, asset sale or under the heading “— Certain Covenants” and shall assume that no such event has occurred until it has received express written notice from the Company and shall not be liable to the Holders or any other person for any loss arising from any such assumption or failure to so monitor or take such steps to ascertain.

The Trustee and each of the Agents is permitted to engage in other transactions, including normal banking and trustee relationships, with the Company and its Affiliates. The Indenture contains limitations on the rights of the Trustee to obtain payment of claims as a creditor of the Company or any of the Subsidiary Guarantors or JV Subsidiary Guarantors in certain cases or to realize on certain property received by it in respect of any such claims, whether as security or otherwise.

The Trustee and the Agents shall be absolutely and conclusively entitled to rely on, and shall be fully protected in acting or refraining from acting upon, any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, approval, bond, security or other paper or document believed by it to be genuine. The Trustee may consult with counsel and the advice of such counsel or any Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken or suffered or omitted hereunder in good faith and in reliance thereon.

All calculations relating to the Notes shall be performed by the Company or any other person appointed by it for this purpose. None of the Trustee or the Agents shall be liable in any respect for the accuracy or inaccuracy in any calculation or formula under the Indenture or the Notes, whether by the Company, auditors or any other person so appointed by any of them for such purpose.

In connection with the exercise of its functions (including but not limited to those in relation to any modification, authorization or waiver), the Trustee shall have regard to the interests of the Holders as a class and shall not have regard to the consequences of such exercise for individual Holders, and no Holder shall be entitled to claim from the Trustee or any other person any indemnification or payment in respect of any tax consequences of any such individual except as described under “— Additional Amounts”.

Each Holder, by accepting the Notes will agree, for the benefit of the Trustee, that it is solely responsible for its own independent appraisal of an investigation into all risks arising under or in connection with the Indenture and has not relied on and will not at any time rely on the Trustee or any of the Agents in respect of such risks.

Concerning the Collateral Agent

Citicorp International Limited will act as the Collateral Agent under the Security Documents in respect of the Security over the Collateral. The Collateral Agent, acting in its capacity as such, shall have such duties with respect to the Collateral pledged pursuant to the Security Documents as are set forth in the Indenture and the Security Documents. Under certain circumstances, the Trustee and the Collateral Agent may have obligations under the Security Documents that are in conflict with the interests of the Holders. Neither the Trustee nor the Collateral Agent will be under any obligation to exercise any rights or powers conferred under the Indenture or any of the Security Documents for the benefit of the Holders unless such Holders have instructed the Trustee in writing and offered to the Trustee and the Collateral Agent indemnity and/or pre-funding and/or security satisfactory to the Trustee

and the Collateral Agent against any loss, liability or expense. Furthermore, each Holder, by accepting the Notes will agree, for the benefit of the Trustee and the Collateral Agent, that it is solely responsible for its own independent appraisal of and investigation into all risks arising under or in connection with the Security Documents and has not relied on and will not at any time rely on the Trustee or the Collateral Agent in respect of such risks.

Book-Entry; Delivery and Form

The Notes will be represented by a global note in registered form without interest coupons attached (the “**Initial Global Note**”). On the Original Issue Date, the Initial Global Note will be deposited with a common depository and registered in the name of the common depository or its nominee for the accounts of Euroclear and Clearstream. Any additional Notes will be represented by additional global notes in registered form without interest coupons attached (the “**Additional Global Notes**”, together with the Initial Global Note, the “**Global Notes**”).

Global Notes

Ownership of beneficial interests in the Global Notes (the “**book-entry interests**”) will be limited to persons that have accounts with Euroclear and/or Clearstream or persons that may hold interests through such participants. Book-entry interests will be shown on, and transfers thereof will be effected only through, records maintained in book-entry form by Euroclear and Clearstream and their participants.

Except as set forth below under “— Certificated Definitive Notes”, the book-entry interests will not be held in definitive form. Instead, Euroclear and/or Clearstream will credit on their respective book-entry registration and transfer systems a participant’s account with the interest beneficially owned by such participant. The laws of some jurisdictions may require that certain purchasers of securities take physical delivery of such securities in definitive form. The foregoing limitations may impair the ability to own, transfer or pledge book-entry interests.

So long as the Notes are held in global form, the common depository for Euroclear and/or Clearstream (or its nominee) will be considered the sole holder of the Global Notes for all purposes under the Indenture and “holders” of book-entry interests will not be considered the owners or “Holders” of Notes for any purpose. As such, participants must rely on the procedures of Euroclear and Clearstream and indirect participants must rely on the procedures of the participants through which they own book-entry interests in order to transfer their interests in the Notes or to exercise any rights of Holders under the Indenture.

None of the Company, the Subsidiary Guarantors, the JV Subsidiary Guarantors (if any), the Trustee or any of their respective agents will have any responsibility or be liable for any aspect of the records relating to the book-entry interests. The Notes are not issuable in bearer form.

Payments on the Global Notes

Payments of any amounts owing in respect of the Global Notes (including principal, premium, interest and Additional Amounts) will be made to the Paying Agent in U.S. dollars. The Paying Agent will, in turn, make such payments to the common depository for Euroclear and Clearstream, which will distribute such payments to participants in accordance with their procedures. Each of the Company, the Subsidiary Guarantors and the JV Subsidiary Guarantors will make payments of all such amounts without deduction or withholding for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature, except as may be required by law and as described under “— Additional Amounts.”

Under the terms of the Indenture, the Company, any Subsidiary Guarantor, any JV Subsidiary Guarantor the Trustee and the Agents will treat the registered holder of the Global Note (i.e., the common depositary or its nominee) as the owner thereof for the purpose of receiving payments and for all other purposes. Consequently, none of the Company, the Subsidiary Guarantors, the JV Subsidiary Guarantors, the Trustee, the Agents or any of their respective agents has or will have any responsibility or liability for:

- any aspect of the records of Euroclear, Clearstream or any participant or indirect participant relating to or payments made on account of a book-entry interest, for any such payments made by Euroclear, Clearstream or any participant or indirect participants, or for maintaining, supervising or reviewing any of the records of Euroclear, Clearstream or any participant or indirect participant relating to or payments made on account of a book-entry interest; or
- any action or failure to take action by Euroclear, Clearstream or any participant or indirect participant.

Payments by participants to owners of book-entry interests held through participants are the responsibility of such participants.

Redemption of Global Notes

In the event any Global Note, or any portion thereof, is redeemed, the common depositary will distribute the U.S. dollar amount received by it in respect of the Global Note so redeemed to Euroclear and/or Clearstream, as applicable, who will distribute such amount to the holders of the book-entry interests in such Global Note. The redemption price payable in connection with the redemption of such book-entry interests will be equal to the U.S. dollar amount received by the common depositary, Euroclear or Clearstream, as applicable, in connection with the redemption of such Global Note (or any portion thereof). The Company understands that under existing practices of Euroclear and Clearstream, if fewer than all of the Notes are to be redeemed at any time, Euroclear and Clearstream will credit their respective participants' accounts on a proportionate basis (with adjustments to prevent fractions) or on such other basis as they deem fair and appropriate; *provided, however*, that no book-entry interest of US\$200,000 principal amount, or less, as the case may be, will be redeemed in part.

Action by Owners of Book-Entry Interests

Euroclear and Clearstream have advised that they will take any action permitted to be taken by a Holder of Notes only at the direction of one or more participants to whose account the book-entry interests in a Global Note are credited and only in respect of such portion of the aggregate principal amount of Notes as to which such participant or participants has or have given such direction. Euroclear and Clearstream will not exercise any discretion in the granting of consents, waivers or the taking of any other action in respect of any Global Note. If there is an Event of Default under the Notes, however, each of Euroclear and Clearstream reserves the right to exchange the Global Notes for certificated notes in certificated form, and to distribute such certificated notes to their participants.

Transfers

Transfers between participants in Euroclear and Clearstream will be effected in accordance with Euroclear and Clearstream's rules and will be settled in immediately available funds. If a Holder requires physical delivery of individual definitive notes for any reason, including to sell the Notes to persons in jurisdictions which require physical delivery of such securities or to pledge such securities, such Holder must transfer its interest in the Global Note in accordance with the normal procedures of Euroclear and Clearstream and in accordance with the provisions of the Indenture.

Book-entry interests in the Global Notes will be subject to the restrictions on transfer discussed under "Transfer Restrictions."

Any book-entry interest in a Global Note that is transferred to a person who takes delivery in the form of a book-entry interest in another Global Note will, upon transfer, cease to be a book-entry interest in the first-mentioned Global Note and become a book-entry interest in the other Global Note and, accordingly, will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to book-entry interests in such other Global Note for as long as it retains such a book-entry interest.

Global Clearance and Settlement Under the Book-Entry System

Book-entry interests owned through Euroclear or Clearstream accounts will follow the settlement procedures applicable. Book-entry interests will be credited to the securities custody accounts of Euroclear and Clearstream holders on the Business Day following the settlement date against payment for value on the settlement date.

The book-entry interests will trade through participants of Euroclear or Clearstream, and will settle in same-day funds. Since the purchaser determines the place of delivery, it is important to establish at the time of trading of any book-entry interests where both the purchaser's and seller's accounts are located to ensure that settlement can be made on the desired value date.

Information Concerning Euroclear and Clearstream

We understand as follows with respect to Euroclear and Clearstream:

Euroclear and Clearstream hold securities for participating organizations and facilitate 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 participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream interface with domestic securities markets. Euroclear and Clearstream participants are financial institutions, such as underwriters, securities brokers and dealers, banks and trust companies, and certain other organizations. Indirect access to Euroclear or Clearstream is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodian relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Although the foregoing sets out the procedures of Euroclear and Clearstream in order to facilitate the original issue and subsequent transfers of interests in the Notes among participants of Euroclear and Clearstream, neither Euroclear nor Clearstream is under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time.

None of the Company, the Subsidiary Guarantors, the JV Subsidiary Guarantors, the Trustee, the Agents or any of their respective agents will have responsibility for the performance of Euroclear or Clearstream or their respective participants of their respective obligations under the rules and procedures governing their operations, including, without limitation, rules and procedures relating to book-entry interests.

Certificated Notes

If (1) the common depository or any successor to the common depository is at any time unwilling or unable to continue as a depository for the reasons described in the Indenture and a successor depository is not appointed by the Company within 90 days, (2) either Euroclear or Clearstream, or a successor 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 to permanently cease business or does in fact do so, or (3) any of the Notes has become immediately due and payable in accordance with “— Events of Default” and the Company has received a written request from a Holder, the Company will issue certificated notes in registered form in exchange for the Global Notes. Upon receipt of such notice

from the common depository or the Trustee, as the case may be, the Company will use its best efforts to make arrangements with the common depository for the exchange of interests in the Global Notes for certificated notes and cause the requested certificated notes to be executed and delivered to the Note Registrar in sufficient quantities and authenticated by the Note Registrar for delivery to Holders. Persons exchanging interests in a Global Note for certificated notes will be required to provide the Note Registrar, through the relevant clearing system, with written instruction and other information required by the Company and the Note Registrar to complete, execute and deliver such certificated notes. In all cases, certificated notes delivered in exchange for any Global Note or beneficial interests therein will be registered in the names, and issued in any approved denominations, requested by the relevant clearing system.

Certificated notes will not be eligible for clearing and settlement through Euroclear or Clearstream.

Notices

All notices or demands required or permitted by the terms of the Notes or the Indenture to be given to or by the Holders are required to be in writing and may be given or served by being sent by prepaid courier or first-class mails of the relevant jurisdiction (if intended for the Company or any Subsidiary Guarantor or JV Subsidiary Guarantor) addressed to the Company, such Subsidiary Guarantor or such JV Subsidiary Guarantor, as the case may be, at the address of the Company specified in the Indenture; (if intended for the Trustee) addressed to the Trustee at the corporate trust office of the Trustee; and (if intended for any Holder) addressed to such Holder at such Holder's last address as it appears in the Note register.

So long as the Notes are represented by the Global Note and the Global Note is held on behalf of Euroclear and/or Clearstream, notices to Holders may be given by delivery of the relevant notice to Euroclear and/or Clearstream for communication by it to entitled participants in substitution for notification as required under the Notes.

Any such notice or demand will be deemed to have been sufficiently given or served when so sent or deposited and, if to the Holders, when delivered in accordance with the applicable rules and procedures of Euroclear or Clearstream, as the case may be. Any such notice shall be deemed to have been delivered on the day such notice is delivered to Euroclear or Clearstream, as the case may be, or if by mail, when so sent or deposited.

Consent to Jurisdiction; Service of Process

The Company and each of the Subsidiary Guarantors will irrevocably (1) submit to the non-exclusive jurisdiction of any U.S. federal or New York state court located in the Borough of Manhattan, The City of New York in connection with any suit, action or proceeding arising out of, or relating to, the Notes, any Subsidiary Guarantee, any JV Subsidiary Guarantee, the Indenture or any transaction contemplated thereby; and (2) designate and appoint Law Debenture for receipt of service of process in any such suit, action or proceeding.

Any dispute arising out of or in connection with any Security Document or any Personal Guarantee shall be submitted to China International Economic and Trade Arbitration Commission (CIETAC) in Beijing for arbitration which shall be conducted in accordance with the CIETAC's arbitration rules then in effect.

Governing Laws

Each of the Notes, the Subsidiary Guarantees, the JV Subsidiary Guarantees and the Indenture provides that such instrument will be governed by, and construed in accordance with, the laws of the State of New York.

Each of the Security Documents and the Personal Guarantees provides that such instrument will be governed by, and construed in accordance with, the laws of the PRC.

Definitions

Set forth below are defined terms used in the covenants and other provisions of the Indenture. Reference is made to the Indenture for other capitalized terms used in this “Description of the Notes” for which no definition is provided.

“*Acquired Indebtedness*” means Indebtedness of a Person existing at the time such Person becomes a Restricted Subsidiary or Indebtedness of a Restricted Subsidiary assumed in connection with an Asset Acquisition by such Restricted Subsidiary whether or not Incurred in connection with, or in contemplation of, the Person merging with or into or becoming a Restricted Subsidiary.

“*Adjusted Treasury Rate*” means, with respect to any redemption date, (i) the yield, under the heading which represents the average for the immediately preceding week, appearing in the most recently published statistical release designated “H.15(519)” or any successor publication which is published weekly by the Board of Governors of the Federal Reserve System and which establishes yields on actively traded United States Treasury securities adjusted to constant maturity under the caption “Treasury Constant Maturities”, for the maturity corresponding to the Comparable Treasury Issue (if no maturity is within three months before or after _____, 20_____, yields for the two published maturities most closely corresponding to the Comparable Treasury Issue shall be determined and the Adjusted Treasury Rate shall be interpolated or extrapolated from such yields on a straight line basis, rounding to the nearest month) or (ii) if such release (or any successor release) is not published during the week preceding the calculation date or does not contain such yields, the rate per year equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date, in each case calculated on the third Business Day immediately preceding the redemption date.

“*Affiliate*” means, with respect to any Person, any other Person (1) directly or indirectly controlling, controlled by, or under direct or indirect common control with, such Person; (2) who is a director or officer of such Person or any Subsidiary of such Person or of any Person referred to in clause (1) of this definition; or (3) who is a spouse or any person cohabiting as a spouse, child or step-child, parent or step-parent, brother, sister, step-brother or step-sister, parent-in-law, grandchild, grandparent, uncle, aunt, nephew and niece of a Person described in clause (1) or (2). For purposes of this definition, “control” (including, with correlative meanings, the terms “controlling”, “controlled by” and “under common control with”), as applied to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise.

“*Applicable Premium*” means with respect to any Note at any redemption date, the greater of (1) 1.00% of the principal amount of such Note and (2) the excess of (A) the present value at such redemption date of (x) the principal amount of such Note on _____, 20_____, plus (y) all required remaining scheduled interest payments due on such Note through _____, 20_____ (but excluding accrued and unpaid interest to the redemption date), computed using a discount rate equal to the Adjusted Treasury Rate plus 100 basis points, over (B) the principal amount of such Note on such redemption date.

“*Asset Acquisition*” means (1) an investment by the Company or any of its Restricted Subsidiaries in any other Person pursuant to which such Person shall become a Restricted Subsidiary or shall be merged into or consolidated with the Company or any of its Restricted Subsidiaries; or (2) an acquisition by the Company or any of its Restricted Subsidiaries of the property and assets of any Person other than the Company or any of its Restricted Subsidiaries that constitute substantially all of a division or line of business of such Person.

“*Asset Disposition*” means the sale or other disposition by the Company or any of its Restricted Subsidiaries (other than to the Company or another Restricted Subsidiary) of (1) all or substantially all of the Capital Stock of any Restricted Subsidiary; or (2) all or substantially all of the assets that constitute a division or line of business of the Company or any of its Restricted Subsidiaries.

“*Asset Sale*” means any sale, transfer or other disposition (including by way of merger, consolidation or Sale and Leaseback Transaction) of any of its property or assets (including any sale of Capital Stock of a Subsidiary or issuance of Capital Stock by a Restricted Subsidiary) in one transaction or a series of related transactions by the Company or any of its Restricted Subsidiaries to any Person; *provided* that “Asset Sale” shall not include:

- (1) sales or other dispositions of inventory, receivables and other current assets (including properties under development for sale and completed properties for sale) in the ordinary course of business;
- (2) sales, transfers or other dispositions of assets constituting a Permitted Investment or Restricted Payment permitted to be made under the “— Limitation on Restricted Payments” covenant;
- (3) sales, transfers or other dispositions of assets with a Fair Market Value not in excess of US\$1 million (or the Dollar Equivalent thereof) in any transaction or series of related transactions;
- (4) any sale, transfer, assignment or other disposition of any property, or equipment that has become damaged, worn out, obsolete or otherwise unsuitable for use in connection with the business of the Company or its Restricted Subsidiaries;
- (5) any transfer, assignment or other disposition deemed to occur in connection with creating or granting any Permitted Lien;
- (6) a transaction covered by the covenant described under “— Consolidation, Merger and Sale of Assets”;
- (7) sales or other dispositions of cash or of Temporary Cash Investments; and
- (8) any sale, transfer or other disposition by the Company or any of its Restricted Subsidiaries, including the sale or issuance by the Company or any Restricted Subsidiary of any Capital Stock of any Restricted Subsidiary, to the Company or any Restricted Subsidiary.

“*Associate*” means any Person of which at least 20% of the Capital Stock is owned, directly or indirectly, by the Company or any Restricted Subsidiary.

“*Attributable Indebtedness*” means, in respect of a Sale and Leaseback Transaction, the present value, discounted at the interest rate implicit in such Sale and Leaseback Transaction, of the total obligations of the lessee for rental payments during the remaining term of the lease in such Sale and Leaseback Transaction.

“*Average Life*” means, at any date of determination with respect to any Indebtedness, the quotient obtained by dividing (1) the sum of the products of (a) the number of years from such date of determination to the dates of each successive scheduled principal payment of such Indebtedness and (b) the amount of such principal payment by (2) the sum of all such principal payments.

“*Bank Deposit Secured Indebtedness*” means Indebtedness of the Company or any Restricted Subsidiary that is secured by a pledge of one or more bank accounts or bank deposits of the Company or a Restricted Subsidiary or guaranteed by a guarantee or a letter of credit (or similar instruments) from or

arranged by the Company or a Restricted Subsidiary and is used by the Company and its Restricted Subsidiaries to effect exchange of U.S. dollars, Hong Kong dollars or other foreign currencies into Renminbi or vice versa, or to remit Renminbi or any foreign currency into or outside the PRC.

“*Board of Directors*” means the board of directors of the Company, the Subsidiary Guarantor or the JV Subsidiary Guarantor, as the case may be, or any committee of such board duly authorized to take the action purported to be taken by such committee.

“*Board Resolution*” means any resolution of the Board of Directors taking an action which it is authorized to take and adopted at a meeting duly called and held at which a quorum of disinterested members (if so required) was present and acting throughout or adopted by written resolution executed by every member of the Board of Directors.

“*Business Day*” means any day which is not a Saturday, Sunday, legal holiday or other day on which banking institutions in The City of New York, London or Hong Kong (or in any other place in which payments on the Notes are to be made) are authorized by law or governmental regulation to close.

“*Capitalized Lease*” means, with respect to any Person, any lease of any property (whether real, personal or mixed) which, in conformity with GAAP, is required to be capitalized on the balance sheet of such Person.

“*Capitalized Lease Obligations*” means the discounted present value of the rental obligations under a Capitalized Lease.

“*Capital Stock*” means, with respect to any Person, any and all shares, interests, participations or other equivalents (however designated, whether voting or non-voting) in equity of such Person, whether outstanding on the Original Issue Date or issued thereafter, including, without limitation, all Common Stock and Preferred Stock, but excluding debt securities convertible into such equity.

“*Change of Control*” means the occurrence of one or more of the following events:

- (1) the direct or indirect sale, transfer, conveyance or other disposition (other than by way of merger or consolidation) in one or a series of related transactions, of all or substantially all of the properties or assets of the Company and its Restricted Subsidiaries, taken as a whole, to any “person” (within the meaning of Section 13(d) of the Exchange Act), other than one or more Permitted Holders;
- (2) the merger, amalgamation or consolidation of the Company with or into another Person (other than one or more Permitted Holders) or the merger, amalgamation or consolidation of another Person (other than one or more Permitted Holders) with or into the Company, or the sale of all or substantially all the assets of the Company to another Person (other than one or more Permitted Holders);
- (3) the Permitted Holders collectively are the beneficial owners of less than 51% of the total voting power of the Voting Stock of the Company;
- (4) any “person” or “group” (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act) is or becomes the “beneficial owner” (as such term is used in Rule 13d-3 of the Exchange Act), directly or indirectly, of total voting power of the Voting Stock of the Company greater than such total voting power held beneficially by the Permitted Holders;

- (5) individuals who on the Original Issue Date constituted the Board of Directors, together with any new directors whose election to the Board of Directors was approved by a vote of at least two-thirds of the directors then still in office who were either directors on the Original Issue Date or whose election was previously so approved, cease for any reason to constitute a majority of the Board of Directors then in office; or
- (6) the adoption of a plan relating to the liquidation or dissolution of the Company.

“*Clearstream*” means Clearstream Banking S.A.

“*Collateral*” means all collateral securing, or purported to be securing, directly or indirectly, the Notes or any Subsidiary Guarantee pursuant to the Security Documents, and shall consist of the Initial Collateral and the Additional Collateral (if any).

“*Commodity Hedging Agreement*” means any spot, forward or option commodity price protection agreements or other similar agreement or arrangement designed to reduce or manage exposure to fluctuations in commodity prices.

“*Common Stock*” means, with respect to any Person, any and all shares, interests or other participations in, and other equivalents (however designated and whether voting or non-voting) of such Person’s common stock or ordinary shares, whether or not outstanding at the date of the Indenture, and includes, without limitation, all series and classes of such common stock or ordinary shares.

“*Comparable Treasury Issue*” means the U.S. Treasury security having a maturity comparable to _____, 20_____ that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities with a comparable maturity to _____, 20_____.

“*Comparable Treasury Price*” means, with respect to any redemption date, if clause (ii) of the Adjusted Treasury Rate is applicable, the average of three (or such lesser number as is available) Reference Treasury Dealer Quotations for such redemption date.

“*Consolidated Assets*” means, with respect to any Restricted Subsidiary at any date of determination, the Company and its Restricted Subsidiaries’ proportionate interest in the total consolidated assets of that Restricted Subsidiary and its Restricted Subsidiaries measured in accordance with GAAP as of the last day of the most recent semi-annual period for which consolidated financial statements of the Company and its Restricted Subsidiaries (which the Company shall use its best efforts to compile on a timely manner) are available (which may be internal consolidated financial statements).

“*Consolidated EBITDA*” means, for any period, Consolidated Net Income for such period plus, to the extent such amount was deducted in calculating such Consolidated Net Income:

- (1) Consolidated Interest Expense, including for the avoidance of doubt, capitalized interest included in cost of sale,
- (2) income taxes (other than income taxes attributable to extraordinary and non-recurring gains (or losses) or sales of assets not included in the calculation of Consolidated EBITDA), including, for the avoidance of doubt, corporate income tax and land appreciation tax, and
- (3) depreciation expense, amortization expense and all other non-cash items reducing Consolidated Net Income (other than non-cash items in a period which reflect cash expenses paid or to be paid in another period and other than losses on Investment Properties arising from fair value adjustments made in conformity with GAAP), less all non-cash items increasing Consolidated Net Income (other than gains on Investment Properties arising from fair value adjustments made in conformity with GAAP),

all as determined on a consolidated basis for the Company and its Restricted Subsidiaries in conformity with GAAP; *provided* that (1) if any Restricted Subsidiary is not a Wholly Owned Restricted Subsidiary, Consolidated EBITDA shall be reduced (to the extent not otherwise reduced in accordance with GAAP) by an amount equal to (A) the amount of the Consolidated Net Income attributable to such Restricted Subsidiary multiplied by (B) the percentage ownership interest in the income of such Restricted Subsidiary not owned on the last day of such period by the Company or any of its Restricted Subsidiaries and (2) in the case of any future PRC CJV (consolidated in accordance with GAAP), Consolidated EBITDA shall be reduced (to the extent not already reduced in accordance with GAAP) by any payments, distributions or amounts (including the Fair Market Value of any non-cash payments, distributions or amounts) required to be made or paid by such PRC CJV to the PRC CJV Partner, or to which the PRC CJV Partner otherwise has a right or is entitled, pursuant to the joint venture agreement governing such PRC CJV.

“*Consolidated Fixed Charges*” means, for any period, the sum (without duplication) of (1) Consolidated Interest Expense for such period and (2) all cash and non-cash dividends paid, declared, accrued or accumulated during such period on any Disqualified Stock or Preferred Stock of the Company or any Restricted Subsidiary held by Persons other than the Company or any Wholly Owned Restricted Subsidiary, except for dividends payable in the Company’s Capital Stock (other than Disqualified Stock) or paid to the Company or to a Wholly Owned Restricted Subsidiary.

“*Consolidated Interest Expense*” means, for any period, the amount that would be included in net interest expense (interest expenses net of interest income) on a consolidated income statement prepared in accordance with GAAP for such period of the Company and its Restricted Subsidiaries, plus, to the extent not included in such net interest expense, and to the extent incurred, accrued or payable during such period by the Company and its Restricted Subsidiaries, without duplication, (1) interest expense attributable to Capitalized Lease Obligations, (2) amortization of debt issuance costs and original issue discount expense and non-cash interest payments in respect of any Indebtedness, (3) the interest portion of any deferred payment obligation, (4) all commissions, discounts and other fees and charges with respect to letters of credit or similar instruments issued for financing purposes or in respect of any Indebtedness, (5) the net costs associated with Hedging Obligations (including the amortization of fees), (6) interest accruing on Indebtedness of any other Person that is Guaranteed by the Company or any Restricted Subsidiary (other than Pre-Registration Mortgage Guarantees) to the extent such interest has become payable by the Company or any Restricted Subsidiary, and (7) any capitalized interest, *provided* that interest expense attributable to interest on any Indebtedness bearing a floating interest rate will be computed on a pro forma basis as if the rate in effect on the date of determination had been the applicable rate for the entire relevant period.

“*Consolidated Net Income*” means, with respect to any specified Person for any period, the aggregate of the net income (or loss) of such Person and its Restricted Subsidiaries for such period, on a consolidated basis, determined in conformity with GAAP; *provided* that the following items shall be excluded in computing Consolidated Net Income (without duplication):

- (1) the net income (or loss) of any Person that is not a Restricted Subsidiary or that is accounted for by the equity method of accounting except that:
 - (a) subject to the exclusion contained in clause (5) below, the Company’s equity in the net income of any such Person for such period shall be included in such Consolidated Net Income up to the aggregate amount of cash actually distributed by such Person during such period to the Company or a Restricted Subsidiary as a dividend or other distribution (subject, in the case of a dividend or other distribution paid to a Restricted Subsidiary, to the limitations contained in clause (3) below); and
 - (b) the Company’s equity in a net loss of any such Person for such period shall be included in determining such Consolidated Net Income to the extent funded with cash or other assets of the Company or Restricted Subsidiaries;

- (2) the net income (or loss) of any Person accrued prior to the date it becomes a Restricted Subsidiary or is merged into or consolidated with the Company or any of its Restricted Subsidiaries or all or substantially all of the property and assets of such Person are acquired by the Company or any of its Restricted Subsidiaries;
- (3) the net income (but not loss) of any Restricted Subsidiary to the extent that the declaration or payment of dividends or similar distributions by such Restricted Subsidiary of such net income is not at the time permitted by the operation of the terms of its charter, articles of association or other similar constitutive documents, or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to such Restricted Subsidiary;
- (4) the cumulative effect of a change in accounting principles;
- (5) any net after tax gains realized on the sale or other disposition of (a) any property or assets of the Company or any Restricted Subsidiary which is not sold in the ordinary course of its business or (b) any Capital Stock of any Person (including any gains by the Company realized on sales of Capital Stock of the Company or other Restricted Subsidiaries);
- (6) any translation gains or losses due solely to fluctuations in currency values and related tax effects; and
- (7) any net after-tax extraordinary or non-recurring gains,

provided that (A) solely for purposes of calculating Consolidated EBITDA and the Fixed Charge Coverage Ratio, any net after tax gains derived from direct or indirect sale by the Company or any Restricted Subsidiary of (i) Capital Stock of a Restricted Subsidiary primarily engaged in the holding of Investment Property or (ii) an interest in any Investment Property arising from the difference between the current book value and the cash sale price shall be added to Consolidated Net Income; (B) for purposes of the Consolidated Net Income calculation (but not for purposes of calculating Consolidated EBITDA and the Fixed Charge Coverage Ratio) any net after tax gains derived from direct or indirect sale by the Company or any Restricted Subsidiary of (i) Capital Stock of a Restricted Subsidiary primarily engaged in the holding of Investment Property or (ii) an interest in any Investment Property arising from the difference between the original cost basis and the cash sale price shall be added to Consolidated Net Income to the extent not already included in the net income for such period as determined in conformity with GAAP and Consolidated Net Income; and (C) solely for the purposes of calculating Consolidated EBITDA and the Fixed Charge Coverage Ratio, any net after tax gains on Investment Properties arising from fair value adjustments made in conformity with GAAP shall be added to Consolidated Net Income.

“*Consolidated Net Worth*” means, at any date of determination, stockholders’ equity as set forth on the most recently available semi-annual or annual consolidated balance sheet (which may be an internal consolidated balance sheet) of the Company and its Restricted Subsidiaries, plus, to the extent not included, any Preferred Stock of the Company, less any amounts attributable to Disqualified Stock or any equity security convertible into or exchangeable for Indebtedness, the cost of treasury stock and the principal amount of any promissory notes receivable from the sale of the Capital Stock of the Company or any of its Restricted Subsidiaries, each item to be determined in conformity with GAAP.

“*Contractor Guarantees*” means any Guarantee by the Company or any Restricted Subsidiary of Indebtedness of any contractor, builder or other similar Person engaged by the Company or such Restricted Subsidiary in connection with the development, construction or improvement of assets, real or personal property or equipment to be used in a Permitted Business by the Company or any Restricted Subsidiary in the ordinary course of business, which Indebtedness was Incurred by such contractor, builder or other similar Person to finance the cost of such development, construction or improvement.

“*Currency Agreement*” means any foreign exchange forward contract, currency swap agreement or other similar agreement or arrangement designed to reduce or manage exposure to fluctuations in foreign exchange rates.

“*Default*” means any event that is, or after notice or passage of time or both would be, an Event of Default.

“*Delisting/Suspension Put Triggering Event*” means the occurrence of either (a) the ordinary share capital of the Company ceasing to be listed on The Stock Exchange of Hong Kong Limited or (b) trading of the ordinary share capital of the Company on The Stock Exchange of Hong Kong Limited is suspended for 30 consecutive Trading Days.

“*Disqualified Stock*” means any class or series of Capital Stock of any Person that by its terms or otherwise is (1) required to be redeemed prior to the Stated Maturity of the Notes, (2) redeemable at the option of the holder of such class or series of Capital Stock at any time prior to the Stated Maturity of the Notes or (3) convertible into or exchangeable for Capital Stock referred to in clause (1) or (2) above or Indebtedness having a scheduled maturity prior to the Stated Maturity of the Notes; *provided* that any Capital Stock that would not constitute Disqualified Stock but for provisions thereof giving holders thereof the right to require such Person to repurchase or redeem such Capital Stock upon the occurrence of an “asset sale” or “change of control” occurring prior to the Stated Maturity of the Notes shall not constitute Disqualified Stock if the “asset sale” or “change of control” provisions applicable to such Capital Stock are no more favorable to the holders of such Capital Stock than the provisions contained in the “— Limitation on Asset Sales” and “— Repurchase of Notes upon an Investor Put Triggering Event” covenants and such Capital Stock specifically provides that such Person will not repurchase or redeem any such stock pursuant to such provision prior to the Company’s repurchase of such Notes as are required to be repurchased pursuant to the “— Limitation on Asset Sales” and “— Repurchase of Notes upon an Investor Put Triggering Event” covenants.

“*Dollar Equivalent*” means, with respect to any monetary amount in a currency other than U.S. dollars, at any time for the determination thereof, the amount of U.S. dollars obtained by converting such foreign currency involved in such computation into U.S. dollars at the base rate for the purchase of U.S. dollars with the applicable foreign currency as quoted by the Federal Reserve Bank of New York on the date of determination.

“*Eligible Appraisers*” means any of Cushman & Wakefield, CBRE, Jones Lang LaSalle Incorporated, Colliers or such other independent firm of property appraisers or valuers as may be agreed between the Trustee (acting on the instructions of at least 80% of the principal amount of the Notes then outstanding) and the Company.

“*Entrusted Loans*” means borrowings by a PRC Restricted Subsidiary from a bank that are secured by a pledge of deposits made by another PRC Restricted Subsidiary to the lending bank as security for such borrowings, *provided* that, such borrowings are not reflected on the consolidated balance sheet of the Company.

“*Equity Offering*” means (i) any underwritten primary public offering or private placement of Common Stock of the Company after the Original Issue Date or (ii) any underwritten secondary public offering or secondary private placement of Common Stock of the Company beneficially owned by a Permitted Holder, after the Original Issue Date, to the extent that a Permitted Holder or a Person controlled by a Permitted Holder concurrently with such public offering or private placement purchases in cash an equal amount of Common Stock from the Company at the same price as the public offering or private placing price; *provided* that any offering or placing referred to in (A) clause (i), (B) clause (ii), or (C) a combination of clauses (i) and (ii) result in the aggregate gross cash proceeds received by the Company being no less than US\$20.0 million (or the Dollar Equivalent thereof).

“*Euroclear*” means Euroclear Bank SA/NV, as operator of the Euroclear System.

“*Exchange Act*” means the U.S. Securities Exchange Act of 1934, as amended.

“*Fair Market Value*” means the price that would be paid in an arm’s-length transaction between an informed and willing seller under no compulsion to sell and an informed and willing buyer under no compulsion to buy, as determined in good faith by the Board of Directors, whose determination shall be conclusive if evidenced by a Board Resolution, except in the case of a determination of the Fair Market Value of total assets for the purposes of determining a JV Entitlement Amount, in which case such price shall be determined by an accounting, appraisal or investment banking firm of recognized international standing appointed by the Company.

“*Financial Company Investor*” means a bank, financial institution, trust company, fund management company, asset management company, financial management company or insurance company, or an Affiliate thereof, that Invests in any Capital Stock of a PRC Restricted Subsidiary.

“*Fixed Charge Coverage Ratio*” means, on any Transaction Date, the ratio of (1) the aggregate amount of Consolidated EBITDA for the then most recent two fiscal semi-annual periods prior to such Transaction Date for which consolidated financial statements of the Company (which the Company shall use its reasonable best efforts to compile in a timely manner) are available (which may be internal consolidated financial statements) (the “**Two Semi-Annual Period**”) to (2) the aggregate Consolidated Fixed Charges during such Two Semi-Annual Period. In making the foregoing calculation:

- (a) pro forma effect shall be given to any Indebtedness, Disqualified Stock or Preferred Stock Incurred, repaid or redeemed during the period (the “**Reference Period**”) commencing on and including the first day of the Two Semi-Annual Period and ending on and including the Transaction Date (other than Indebtedness Incurred or repaid under a revolving credit or similar arrangement (or under any predecessor revolving credit or similar arrangement) in effect on the last day of such Two Semi-Annual Period), in each case as if such Indebtedness, Disqualified Stock or Preferred Stock had been Incurred, repaid or redeemed on the first day of such Reference Period; *provided* that, in the event of any such repayment or redemption, Consolidated EBITDA for such period shall be calculated as if the Company or such Restricted Subsidiary had not earned any interest income actually earned during such period in respect of the funds used to repay or redeem such Indebtedness, Disqualified Stock or Preferred Stock;
- (b) Consolidated Interest Expense attributable to interest on any Indebtedness (whether existing or being Incurred) computed on a pro forma basis and bearing a floating interest rate shall be computed as if the rate in effect on the Transaction Date (taking into account any Interest Rate Agreement applicable to such Indebtedness if such Interest Rate Agreement has a remaining term in excess of 12 months or, if shorter, at least equal to the remaining term of such Indebtedness) had been the applicable rate for the entire period;
- (c) pro forma effect shall be given to the creation, designation or redesignation of Restricted Subsidiaries and Unrestricted Subsidiaries as if such creation, designation or redesignation had occurred on the first day of such Reference Period;
- (d) pro forma effect shall be given to Asset Dispositions and Asset Acquisitions (including giving pro forma effect to the application of proceeds of any Asset Disposition) that occur during such Reference Period as if they had occurred and such proceeds had been applied on the first day of such Reference Period; and
- (e) pro forma effect shall be given to asset dispositions and asset acquisitions (including giving pro forma effect to the application of proceeds of any asset disposition) that have been made by any Person that has become a Restricted Subsidiary or has been merged with or into the Company or any Restricted Subsidiary during such Reference Period and that would have

constituted Asset Dispositions or Asset Acquisitions had such transactions occurred when such Person was a Restricted Subsidiary as if such asset dispositions or asset acquisitions were Asset Dispositions or Asset Acquisitions that occurred on the first day of such Reference Period;

provided that to the extent that clause (d) or (e) of this sentence requires that pro forma effect be given to an Asset Acquisition or Asset Disposition (or asset acquisition or asset disposition), such pro forma calculation shall be based upon the two full fiscal semi-annual periods immediately preceding the Transaction Date of the Person, or division or line of business of the Person, that is acquired or disposed for which financial information is available.

“*Fitch*” means Fitch Ratings Ltd., a subsidiary of the Fitch Group, a jointly owned subsidiary of Fimalae, S.A. and Hearst Corporation, and its successors.

“*GAAP*” means generally accepted accounting principles in Hong Kong as in effect from time to time.

“*Guarantee*” means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness or other obligation of any other Person and, without limiting the generality of the foregoing, any obligation, direct or indirect, contingent or otherwise, of such Person (1) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation of such other Person (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise) or (2) entered into for purposes of assuring in any other manner the obligee of such Indebtedness or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part), *provided* that the term “*Guarantee*” shall not include endorsements for collection or deposit in the ordinary course of business. The term “*Guarantee*” used as a verb has a corresponding meaning.

“*Hedging Obligation*” of any Person means the obligations of such Person pursuant to any Commodity Hedging Agreement, Currency Agreement or Interest Rate Agreement.

“*Holder*” means the Person in whose name a Note is registered in the Note register.

“*Incur*” means, with respect to any Indebtedness or Capital Stock, to incur, create, issue, assume, Guarantee or otherwise become liable for or with respect to, or become responsible for, the payment of, contingently or otherwise, such Indebtedness or Capital Stock; *provided* that (1) any Indebtedness and Capital Stock of a Person existing at the time such Person becomes a Restricted Subsidiary (or fails to meet the qualifications necessary to remain an Unrestricted Subsidiary) will be deemed to be Incurred by such Restricted Subsidiary at the time it becomes a Restricted Subsidiary and (2) the accretion of original issue discount, the accrual of interest, the accrual of dividends, the payment of interest in the form of additional Indebtedness and the payment of dividends in the form of additional shares of Preferred Stock or Disqualified Stock shall not be considered an Incurrence of Indebtedness. The terms “*Incurrence*”, “*Incurred*” and “*Incurring*” have meanings correlative with the foregoing.

“*Indebtedness*” means, with respect to any Person at any date of determination (without duplication):

- (1) all indebtedness of such Person for borrowed money;
- (2) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;
- (3) all obligations of such Person in respect of letters of credit, bankers’ acceptances or other similar instruments;

- (4) all obligations of such Person to pay the deferred and unpaid purchase price of property or services, except Trade Payables;
- (5) all Capitalized Lease Obligations and Attributable Indebtedness;
- (6) all Indebtedness of other Persons secured by a Lien on any asset of such Person, whether or not such Indebtedness is assumed by such Person; *provided* that the amount of such Indebtedness shall be the lesser of (a) the Fair Market Value of such asset at such date of determination and (b) the amount of such Indebtedness;
- (7) all Indebtedness of other Persons Guaranteed by such Person to the extent such Indebtedness is Guaranteed by such Person;
- (8) to the extent not otherwise included in this definition, Hedging Obligations; and
- (9) all Disqualified Stock issued by such Person valued at the greater of its voluntary or involuntary liquidation preference and its maximum fixed repurchase or redemption price plus accrued dividends.

Notwithstanding the foregoing, Indebtedness shall not include any capital commitments, deferred payment obligations, indemnity provided to joint venture partners, pre-sale receipts in advance from customers or similar obligations, Incurred in the ordinary course of business in connection with the acquisition, development, construction or improvement of real or personal property (including land use rights) to be used in a Permitted Business or any Entrusted Loan; *provided* that such item is not reflected as borrowings on the consolidated balance sheet of the Company (contingent obligations and commitments referred to in a footnote to financial statements and not otherwise reflected as borrowings on the balance sheet will not be deemed to be reflected on such balance sheet).

The amount of Indebtedness of any Person at any date shall be the outstanding balance at such date of all unconditional obligations as described above and, with respect to contingent obligations, the maximum liability upon the occurrence of the contingency giving rise to the obligation; *provided*

- (1) that the amount outstanding at any time of any Indebtedness issued with original issue discount is the face amount of such Indebtedness less the remaining unamortized portion of the original issue discount of such Indebtedness at such time as determined in conformity with GAAP,
- (2) that money borrowed and set aside at the time of the Incurrence of any Indebtedness in order to prefund the payment of the interest on such Indebtedness shall not be deemed to be “Indebtedness” so long as such money is held to secure the payment of such interest, and
- (3) that the amount of Indebtedness with respect to any Hedging Obligation shall be: (i) zero if Incurred pursuant to clause (2)(f) under the “Limitation on Indebtedness and Preferred Stock” covenant, or (ii) equal to the net amount payable by such Person if such Hedging Obligation terminated at that time if not Incurred pursuant to such clause.

“*Independent Third Party*” means any Person that is not an Affiliate of the Company.

“*Interest Rate Agreement*” means any interest rate protection agreement, interest rate future agreement, interest rate option agreement, interest rate swap agreement, interest rate cap agreement, interest rate collar agreement, interest rate hedge agreement, option or future contract or other similar agreement or arrangement designed to reduce or manage exposure to fluctuations in interest rates.

“Investment” means:

- (1) any direct or indirect advance, loan or other extension of credit to another Person;
- (2) any capital contribution to another Person (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others);
- (3) any purchase or acquisition of Capital Stock, Indebtedness, bonds, notes, debentures or other similar instruments or securities issued by another Person; or
- (4) any Guarantee of any obligation of another Person to the extent such obligation is outstanding and to the extent guaranteed by such Person.

An acquisition of assets, Capital Stock or other securities by the Company or a Subsidiary for consideration to the extent such consideration consists of Common Stock of the Company will not be deemed an Investment.

For the purposes of the provisions of the “Designation of Restricted and Unrestricted Subsidiaries” and “Limitation on Restricted Payments” covenants: (1) the Company will be deemed to have made an Investment in an Unrestricted Subsidiary in an amount equal to the Company’s proportional interest in the Fair Market Value of the assets (net of the Company’s proportionate interest in the liabilities owed to any Person other than the Company or a Restricted Subsidiary and that are not Guaranteed by the Company or a Restricted Subsidiary) of a Restricted Subsidiary that is designated an Unrestricted Subsidiary at the time of such designation, and (2) any property transferred to or from any Person shall be valued at its Fair Market Value at the time of such transfer, as determined in good faith by the Board of Directors.

“Investment Grade” means a rating of “AAA”, “AA”, “A” or “BBB”, as modified by a “+” or “-” indication, or an equivalent rating representing one of the four highest rating categories, by S&P or any of its successors or assigns or a rating of “Aaa”, or “Aa”, “A” or “Baa”, as modified by a “1”, “2” or “3” indication, or an equivalent rating representing one of the four highest rating categories, by Moody’s, or any of its successors or assigns, or a rating of “AAA”, “AA”, “A” or “BBB”, as modified by a “+” or “-” indication, or an equivalent rating representing one of the four highest rating categories, by Fitch or any of its successors or assigns, or the equivalent ratings of any internationally recognized rating agency or agencies, as the case may be, which shall have been designated by the Company as having been substituted for S&P, Moody’s or Fitch or two or three of them, as the case may be.

“Investment Property” means any property that is owned and held by any Restricted Subsidiary incorporated under the laws of the PRC primarily for rental yields or for capital appreciation or both, or any hotel owned by the Company or any Restricted Subsidiary from which the Company or any Restricted Subsidiary derives or expects to derive operating income.

“Jointly Controlled Entity” means any corporation, association or other business entity of which 20% or more of the voting power of the outstanding Capital Stock is owned, directly or indirectly, by the Company or a Restricted Subsidiary and such corporation, association or other business entity is treated as a “joint venture” in accordance with GAAP and is primarily engaged in a Permitted Business, and such Jointly Controlled Entity’s Subsidiaries.

“JV Entitlement Amount” means, with respect to any JV Subsidiary Guarantor together with other members of JV Subsidiary Group, an amount that is equal to the product of (i) the Fair Market Value of the total assets of such JV Subsidiary Group and its Subsidiaries, on a consolidated basis (without deducting any Indebtedness or other liabilities of such JV Subsidiary Group and its subsidiaries) as of the date of the last fiscal year end of the Company; and (ii) a percentage equal to the effective equity ownership percentage of the Company and/or its Restricted Subsidiaries expressed as a percentage in such JV Subsidiary Guarantor.

“*JV Subsidiary Group*” means, with respect to any JV Subsidiary Guarantor, collectively (x) such JV Subsidiary Guarantor, (y) any of its Restricted Subsidiaries that are providing JV Subsidiary Guarantees, and (z) if such JV Subsidiary Guarantor is wholly-owned by a Restricted Subsidiary, any of its shareholders that are giving JV Subsidiary Guarantees.

“*JV Subsidiary Guarantee*” has the meaning set forth under the caption “— The Subsidiary Guarantees and JV Subsidiary Guarantees.”

“*JV Subsidiary Guarantor*” means a Restricted Subsidiary that executes a JV Subsidiary Guarantee.

“*Lien*” means any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including, without limitation, any conditional sale or other title retention agreement or lease in the nature thereof or any agreement to create any mortgage, pledge, security interest, lien, charge, easement or encumbrance of any kind).

“*LTV Ratio*” means, at any time, the ratio (expressed as a percentage) of the outstanding aggregate principal amount of the Notes divided by the amount of the Pledge Entities Net Assets at that time.

“*Measurement Date*” means March 21, 2017.

“*Minority Interest Staged Acquisition Agreement*” means an agreement between the Company or a Restricted Subsidiary and an Independent Third Party (x) pursuant to which the Company or such Restricted Subsidiary agrees to acquire less than a majority of the Capital Stock of a Person for a consideration that is not more than the Fair Market Value of such Capital Stock of such Person at the time the Company or such Restricted Subsidiary enters into such agreement and (y) which provides that the payment of the purchase price for such Capital Stock is made in more than one installment over a period of time.

“*Moody’s*” means Moody’s Investors Service, Inc. and its successors.

“*NDRC*” means the National Development and Reform Commission of the PRC.

“*NDRC Notice*” means the Notice on the Administrative Reform for the Registration of Offshore Debt Issuances (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) issued by the NDRC on September 14, 2015.

“*Net Cash Proceeds*” means:

- (1) with respect to any Asset Sale, the proceeds of such Asset Sale in the form of cash or cash equivalents, including payments in respect of deferred payment obligations (to the extent corresponding to the principal, but not interest, component thereof) when received in the form of cash or cash equivalents and proceeds from the conversion of other property received when converted to cash or cash equivalents, net of:
 - (a) brokerage commissions and other fees and expenses (including fees and expenses of counsel and investment banks) related to such Asset Sale;
 - (b) provisions for all taxes (whether or not such taxes will actually be paid or are payable) as a result of such Asset Sale without regard to the consolidated results of operations of the Company and its Restricted Subsidiaries, taken as a whole;
 - (c) payments made to repay Indebtedness or any other obligation outstanding at the time of such Asset Sale that either (x) is secured by a Lien on the property or assets sold or (y) is required to be paid as a result of such sale;

- (d) appropriate amounts to be provided by the Company or any Restricted Subsidiary as a reserve against any liabilities associated with such Asset Sale, including, without limitation, pension and other post-employment benefit liabilities, liabilities related to environmental matters and liabilities under any indemnification obligations associated with such Asset Sale, all as determined in conformity with GAAP; and
- (2) with respect to any issuance or sale of Capital Stock, the proceeds of such issuance or sale in the form of cash or cash equivalents, including payments in respect of deferred payment obligations (to the extent corresponding to the principal, but not interest, component thereof) when received in the form of cash or cash equivalents and proceeds from the conversion of other property received when converted to cash or cash equivalents, net of attorneys' fees, accountants' fees, underwriters' or placement agents' fees, discounts or commissions and brokerage, consultant and other fees incurred in connection with such issuance or sale and net of taxes paid or payable as a result thereof.

“*Offer to Purchase*” means an offer to purchase the Notes by the Company to the Holders commenced by the Company mailing a notice by first class mail, postage prepaid, to the Trustee, the Paying Agent and each Holder at its last address appearing in the Note register stating:

- (1) the provision in the Indenture pursuant to which the offer is being made and that all Notes validly tendered will be accepted for payment on a pro rata basis;
- (2) the purchase price and the date of purchase (which shall be a Business Day no earlier than 30 days nor later than 60 days from the date such notice is mailed) (the “**Offer to Purchase Payment Date**”);
- (3) that any Note not tendered will continue to accrue interest pursuant to its terms;
- (4) that, unless the Company defaults in the payment of the purchase price, any Note accepted for payment pursuant to the Offer to Purchase shall cease to accrue interest on and after the Offer to Purchase Payment Date;
- (5) that Holders electing to have a Note purchased pursuant to the Offer to Purchase will be required to surrender the Note, together with the form entitled “Option of the Holder to Elect Purchase” on the reverse side of the Note completed, to the Paying Agent at the address specified in the notice prior to the close of business on the Business Day immediately preceding the Offer to Purchase Payment Date;
- (6) that Holders will be entitled to withdraw their election if the Paying Agent receives, not later than the close of business on the third Business Day immediately preceding the Offer to Purchase Payment Date, a facsimile transmission or letter setting forth the name of such Holder, the principal amount of Notes delivered for purchase and a statement that such Holder is withdrawing his election to have such Notes purchased; and
- (7) that Holders whose Notes are being purchased only in part will be issued new Notes equal in principal amount to the unpurchased portion of the Notes surrendered; *provided* that each Note purchased and each new Note issued shall be in a principal amount of US\$200,000 or integral multiples of US\$1,000 in excess thereof.

On the Offer to Purchase Payment Date, the Company shall (a) accept for payment on a pro rata basis Notes or portions thereof tendered pursuant to an Offer to Purchase; (b) deposit with the Paying Agent money sufficient to pay the purchase price of all Notes or portions thereof so accepted; and (c) deliver, or cause to be delivered, to the Trustee all Notes or portions thereof so accepted together with an Officers' Certificate specifying the Notes or portions thereof accepted for payment by the Company. The Paying Agent shall promptly mail to the Holders of Notes so accepted payment in an amount equal

to the purchase price, and the Trustee or an authenticating agent shall promptly authenticate and mail to such Holders a new Note equal in principal amount to any unpurchased portion of the Note surrendered; *provided* that each Note purchased and each new Note issued shall be in a principal amount of US\$200,000 or integral multiples of US\$1,000 in excess thereof. The Company will publicly announce the results of an Offer to Purchase as soon as practicable after the Offer to Purchase Payment Date. The Company will comply with Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent such laws and regulations are applicable, in the event that the Company is required to repurchase Notes pursuant to an Offer to Purchase.

To the extent that the provisions of any securities laws or regulations of any jurisdiction conflict with the provisions of the Indenture governing any Offer to Purchase, the Company will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Indenture by virtue of such compliance. The Company will not be required to make an Offer to Purchase if a third party makes the Offer to Purchase in compliance with the requirements set forth in the Indenture applicable to an Offer to Purchase made by the Company and purchases all Notes properly tendered and not withdrawn under the Offer to Purchase.

The offer is required to contain or incorporate by reference information concerning the business of the Company and its Subsidiaries which the Company in good faith believes will assist such Holders to make an informed decision with respect to the Offer to Purchase, including a brief description of the events requiring the Company to make the Offer to Purchase, and any other information required by applicable law to be included therein. The offer is required to contain all instructions and materials necessary to enable such Holders to tender Notes pursuant to the Offer to Purchase.

“*Officer*” means one of the directors or executive officers of the Company or, in the case of a Subsidiary Guarantor or JV Subsidiary Guarantor, one of the directors or officers of such Subsidiary Guarantor or JV Subsidiary Guarantor, as the case may be.

“*Officers’ Certificate*” means a certificate signed by two Officers; *provided* that, with respect to any Subsidiary Guarantor or JV Subsidiary Guarantor having only one Officer, an “Officers’ Certificate” means a certificate signed by such Officer.

“*Onshore Secured Indebtedness*” means Indebtedness of the Company or any Restricted Subsidiary that is, through a standby letter of credit or other similar instrument issued by a bank or other financial institution, indirectly benefited from the pledge of assets or shares of a Restricted Subsidiary in the PRC or a guarantee or a letter of credit (or similar instruments) from or arranged by a Restricted Subsidiary in the PRC to such bank or other financial institution.

“*Opinion of Counsel*” means a written opinion from legal counsel who is reasonably acceptable to the Trustee.

“*Original Issue Date*” means the date on which the Notes are originally issued under the Indenture.

“*outstanding*” when used with respect to the Notes means, as of the date of determination, all Notes theretofore authenticated and delivered under the Indenture, except:

- (1) Notes theretofore cancelled by the Paying Agent or accepted by the Paying Agent for cancellation;
- (2) Notes for whose payment or redemption money in the necessary amount has been theretofore deposited with the Trustee (in trust) or any Paying Agent for the Holders of such Notes; *provided* that, if such Notes are to be redeemed, notice of such redemption has been duly given pursuant to the Indenture or provision therefor reasonably satisfactory to the Trustee has been made; and

- (3) Notes in exchange for or in lieu of which other Notes have been authenticated and delivered pursuant to the Indenture.

A Note does not cease to be outstanding because the Company or any Affiliate of the Company holds the Note; *provided* that in determining whether the Holders of the requisite amount of outstanding Notes have given any request, demand, authorization, direction, notice, consent or waiver under the Indenture, Notes owned, directly or indirectly, by the Company, any Subsidiary Guarantor, any JV Subsidiary Guarantor or any Affiliate of the Company, any Subsidiary Guarantor or any JV Subsidiary Guarantor or beneficially held, directly or indirectly, for the Company, any Subsidiary Guarantor, any JV Subsidiary Guarantor or an Affiliate of the Company, any Subsidiary Guarantor or any JV Subsidiary Guarantor shall be disregarded and deemed not to be outstanding, except that, for the purpose of determining whether the Trustee shall be protected in relying on any such request, demand, authorization, direction, notice, consent or waiver, only Notes for which the Trustee has received an Officers' Certificate from the Company or an Affiliate of the Company evidencing such ownership or beneficial holding shall be so disregarded; *further provided* that at any time the Notes are owned, directly or indirectly, only by the Company, any Subsidiary Guarantor, any JV Subsidiary Guarantor or any Affiliate of the Company, any Subsidiary Guarantor or any JV Subsidiary Guarantor or beneficially held, directly or indirectly, only for the Company, any Subsidiary Guarantor, any JV Subsidiary Guarantor or an Affiliate of the Company, any Subsidiary Guarantor or any JV Subsidiary Guarantor, the first proviso in this sentence shall not apply. The Company, any Subsidiary Guarantor or any JV Subsidiary Guarantor, as the case may be, shall, upon determination of whether the Holders of the requisite amount of outstanding Notes have given any request, demand, authorization, direction, notice, consent or waiver under the Indenture becoming required and upon a request of the Trustee in writing, promptly deliver an Officers' Certificate to the Trustee evidencing to the Company's best knowledge such ownership or beneficial holding. Notes so owned or beneficially held that have been pledged in good faith may be regarded as outstanding if the pledgee establishes its right to act with respect to such Notes and that the pledgee is not the Company or an Affiliate of the Company. For the avoidance of doubt, any Note indirectly held by any of the Permitted Holders through any structured product or any other arrangement, where such Permitted Holder or any other Permitted Holder will be entitled to either the underlining economic interests of such Notes or exercise the voting power of such Notes, shall be disregarded and deemed not to be outstanding in determining whether the Holders of the requisite amount of outstanding Notes have given any request, demand, authorization, direction, notice, consent or waiver under the Indenture.

"Pari Passu Guarantee" means a guarantee by the Company, any Subsidiary Guarantor or any JV Subsidiary Guarantor of Indebtedness of the Company (including Additional Notes), any Subsidiary Guarantor or any JV Subsidiary Guarantor; *provided* that (1) the Company, such Subsidiary Guarantor or such JV Subsidiary Guarantor was permitted to Incur such Indebtedness under the covenant described under "*— Limitation on Indebtedness and Preferred Stock*" and (2) such guarantee ranks *pari passu* with the Notes, any outstanding Subsidiary Guarantee of such Subsidiary Guarantor, or with any outstanding JV Subsidiary Guarantee of such JV Subsidiary Guarantor, as the case may be.

"Payment Default" means (1) any default in the payment of interest on any Note when the same becomes due and payable, (2) any default in the payment of principal of (or premium, if any, on) the Notes when the same becomes due and payable at maturity, upon acceleration, redemption or otherwise, (3) the failure by the Company to make or consummate an Offer to Purchase or a redemption of the Notes, as the case may be, in the manner described under the caption "*— Repurchase of Notes upon an Investor Put Triggering Event*," "*— Repurchase of Notes by the Company at the Option of the Holders*," "*— Limitation on Asset Sales*," "*— Security*" or "*— Limitation on Reduction of Capital Contribution and Dividends Distribution*" or (4) any Event of Default specified in clause (5) of the definition of Events of Default.

"Permitted Businesses" means any business which is the same as or related, ancillary or complementary to any of the businesses of the Company and its Restricted Subsidiaries on the Original Issue Date.

“Permitted Holders” means any or all of the following:

- (1) Mr. Zhang Zhangsun;
- (2) an Affiliate (other than an Affiliate as defined in clause (2) of the definition of Affiliate) of the Person specified in clause (1); and
- (3) any Person both the Capital Stock and the Voting Stock of which (or in the case of a trust, the beneficial interests in which) are owned 80% or more by one or more of the Persons specified in clauses (1) and (2).

“Permitted Investment” means any of the following:

- (1) any Investment in the Company or a Restricted Subsidiary that is primarily engaged in a Permitted Business or a Person which will, upon the making of such Investment (including the acquisition of Capital Stock of such a Person), become a Restricted Subsidiary that is primarily engaged in a Permitted Business or be merged or consolidated with or into or transfer or convey all or substantially all its assets to, the Company or a Restricted Subsidiary that is primarily engaged in a Permitted Business;
- (2) any Investment in cash or Temporary Cash Investments;
- (3) payroll, travel and similar advances to cover matters that are expected at the time of such advances ultimately to be treated as expenses in accordance with GAAP;
- (4) stock, obligations or securities received in satisfaction of judgments;
- (5) an Investment in an Unrestricted Subsidiary consisting solely of an Investment in another Unrestricted Subsidiary;
- (6) any Investment pursuant to a Hedging Obligation to reduce or manage the exposure of the Company or any of its Restricted Subsidiaries to fluctuations in interest rates, currencies or the price of commodities;
- (7) receivables owing to the Company or any Restricted Subsidiary, if created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms;
- (8) Investments made by the Company or any Restricted Subsidiary consisting of consideration received in connection with an Asset Sale made in compliance with the covenant described under “— Limitation on Asset Sales”;
- (9) pledges or deposits (x) with respect to leases or utilities provided to third parties in the ordinary course of business or (y) otherwise described in the definition of “Permitted Liens” or made in connection with Liens permitted under the covenant described under “— Limitation on Liens”;
- (10) any Investment pursuant to Pre-Registration Mortgage Guarantees or Contractor Guarantees by the Company or any Restricted Subsidiary otherwise permitted to be Incurred under the Indenture;
- (11) Investments in securities of trade creditors, trade debtors or customers received pursuant to any plan of reorganization or similar arrangement upon the bankruptcy or insolvency of such trade creditor, trade debtor or customer;

- (12) advances to contractors and suppliers for the acquisition of assets or consumables or services in the ordinary course of business that are recorded as deposits or prepaid expenses on the Company's consolidated balance sheet;
- (13) deposits of pre-sale proceeds made in order to secure the completion and delivery of pre-sold properties and issuance of the related land use title in the ordinary course of business;
- (14) deposits made in order to comply with statutory or regulatory obligations to maintain deposits for workers compensation claims, welfares and social benefits, property maintenance and other purposes specified by statute or regulation from time to time in the ordinary course of business;
- (15) deposits made in order to secure the performance of the Company or any of its Restricted Subsidiaries and prepayments made in connection with the direct or indirect acquisition of real property or land use rights or personal property (including without limitation, Capital Stock) by the Company or any of its Restricted Subsidiaries (including, without limitation, by way of acquisition of Capital Stock of a Person), in each case in the ordinary course of business;
- (16) payments made pursuant to any Staged Acquisition Agreement;
- (17) Guarantees permitted under clauses (2)(p), (2)(q), 2(r) or (2)(s) of the covenant under "— Limitation on Indebtedness and Preferred Stock";
- (18) any Investment (including without limitation any deemed Investment upon the redesignation of a Restricted Subsidiary as an Unrestricted Subsidiary or upon the issuance or sale of Capital Stock of a Restricted Subsidiary) by the Company or any Restricted Subsidiary in any Person; *provided* that:
 - (i) (x) the aggregate of all Investments made under this clause (18) since the Measurement Date shall not exceed in aggregate an amount equal to 25% of Total Assets, and (y) the aggregate of all Investments made under this clause (18) since the Measurement Date in any Person, other than any Person of which at least 20% of the Capital Stock and Voting Stock is (or upon the making of such Investment, will be) owned, directly or indirectly, by the Company or any Restricted Subsidiary (each such Person, an "Associate"), shall not exceed in aggregate an amount equal to 7.5% of Total Assets;

Such aggregate amount of Investments shall be calculated after deducting an amount equal to the net reduction in all Investments made under this clause (18) since the Measurement Date resulting from:

- (A) payments of interest on Indebtedness, dividends or repayments of loans or advances made under this clause (18), in each case to the Company or any Restricted Subsidiary (except, in each case, to the extent any such payment or proceeds are included in the calculation of Consolidated Net Income),
- (B) the unconditional release of a Guarantee provided by the Company or a Restricted Subsidiary after the Measurement Date under this clause of an obligation of any such Person,
- (C) to the extent that an Investment made after the Measurement Date under this clause (18) is sold or otherwise liquidated or repaid for cash, the lesser of (x) cash return of capital with respect to such Investment (less the cost of disposition, if

any) and (y) the initial amount of such Investment, not to exceed, in each case, the amount of Investments made by the Company or a Restricted Subsidiary after the Measurement Date in any such Person pursuant to this clause (18),

- (D) redesignations of Unrestricted Subsidiaries as Restricted Subsidiaries not to exceed, in each case, the amount of Investments made pursuant to this clause (18) by the Company or any Restricted Subsidiary after the Measurement Date in any such Person, or
 - (E) any such Person becoming a Restricted Subsidiary (whereupon all Investments made by the Company or any Restricted Subsidiary in such Person since the Measurement Date shall be deemed to have been made pursuant to clause (1) of the definition of “Permitted Investment”),
- (ii) the Associate into which such Investment is made is primarily engaged in a Permitted Business;
 - (iii) none of the other shareholders or partners in such Person in which such Investment was made pursuant to this clause (18) is a Person described in clauses (x) or (y) of the first paragraph of the covenant under the caption “— Limitation on Transactions with Shareholders and Affiliates” (other than by reason of such shareholder or partner being an officer or director of the Company or a Restricted Subsidiary or by reason of being a Subsidiary, Jointly Controlled Entity or Associate of the Company);
 - (iv) no Default has occurred and is continuing or would occur as a result of such Investment; and
 - (v) in the case only of any Investment by the Company or any Restricted Subsidiary in a Person of which a “person” or any of their Affiliates owns, directly or indirectly, voting power of the outstanding Voting Stock that is greater than that owned, directly or indirectly, by the Company or its Restricted Subsidiaries, at the time of such Investment, the Company could Incur at least US\$1.00 of Indebtedness under the proviso in the first paragraph of part (1) of the covenant under the caption “— Limitation of Indebtedness and Preferred Stock”; *provided* that, the Company and the Restricted Subsidiaries shall not be required to comply with this clause (v) in respect of (A) Investments made or deemed to have been made by the Company or any Restricted Subsidiary in a Person as a result of a sale or issuance of Capital Stock of such Person which, prior to such sale or issuance, was a Restricted Subsidiary and, immediately after such sale or issuance, no longer constitutes a Restricted Subsidiary, (B) Investments in any Person whose financial statements, immediately following such Investment, would be consolidated by the Company or any Restricted Subsidiary and (C) any other Investments in any Person in an aggregate amount not to exceed 5% of Total Assets at the time of such Investment.

For the avoidance of doubt, the value of each Investment made pursuant to this clause shall be valued at the time such Investment is made;

- (19) advances or deposits paid directly or indirectly to government authorities or government-affiliated or supervised entities, collective economic organizations, existing land or building owners, holders, occupants or lessees, or related agents in the PRC in connection with the financing of land acquisition, primary land development or land redevelopment activities in the ordinary course of business to the extent each such advance or deposit is on normal commercial terms; and
- (20) repurchases of Notes.

“*Permitted Liens*” means:

- (1) Liens for taxes, assessments, governmental charges or claims that are being contested in good faith by appropriate legal or administrative proceedings promptly instituted and diligently conducted and for which a reserve or other appropriate provision, if any, as shall be required in conformity with GAAP shall have been made;
- (2) statutory and common law Liens of landlords and carriers, warehousemen, mechanics, suppliers, repairmen or other similar Liens arising in the ordinary course of business and with respect to amounts not yet delinquent or being contested in good faith by appropriate legal or administrative proceedings promptly instituted and diligently conducted and for which a reserve or other appropriate provision, if any, as shall be required in conformity with GAAP shall have been made;
- (3) Liens incurred or deposits made to secure the performance of tenders, bids, leases, statutory or regulatory obligations, bankers’ acceptances, surety and appeal bonds, government contracts, performance and return-of-money bonds and other obligations of a similar nature incurred in the ordinary course of business (exclusive of obligations for the payment of borrowed money);
- (4) leases or subleases granted to others that do not materially interfere with the ordinary course of business of the Company and its Restricted Subsidiaries, taken as a whole;
- (5) Liens encumbering property or assets under construction arising from progress or partial payments by a customer of the Company or its Restricted Subsidiaries relating to such property or assets;
- (6) Liens on property of, or on shares of Capital Stock or Indebtedness of, any Person existing at the time such Person becomes, or becomes a part of, any Restricted Subsidiary; *provided* that such Liens do not extend to or cover any property or assets of the Company or any Restricted Subsidiary other than the property or assets acquired; *provided further* that such Liens were not created in contemplation of or in connection with the transactions or series of transactions pursuant to which such Person became a Restricted Subsidiary;
- (7) Liens in favor of the Company or any Restricted Subsidiary;
- (8) Liens arising from the rendering of a final judgment or order against the Company or any Restricted Subsidiary that does not give rise to an Event of Default;
- (9) Liens securing reimbursement obligations with respect to letters of credit that encumber documents and other property relating to such letters of credit and the products and proceeds thereof;
- (10) Liens encumbering customary initial deposits and margin deposits, and other Liens that are within the general parameters customary in the industry, in each case, securing Indebtedness under Hedging Obligations of the type permitted by clause (2)(f) of the covenant described under “— Limitation on Indebtedness and Preferred Stock”;
- (11) Liens existing on the Original Issue Date;
- (12) Liens securing Indebtedness which is Incurred to Refinance (i) any secured Indebtedness or (ii) any Indebtedness of a PRC Restricted Subsidiary, which is, in each case, permitted to be Incurred under clause (2)(e) of the covenant described under “— Limitation on Indebtedness and Preferred Stock”;
- (13) any interest or title of a lessor in the property subject to any operating lease;

- (14) Liens securing Indebtedness of the Company or any Restricted Subsidiary under any Pre-Registration Mortgage Guarantee;
- (15) easements, rights-of-way, municipal and zoning ordinances or other restrictions as to the use of properties in favor of governmental agencies or utility companies that do not materially adversely affect the value of such properties or materially impair the use for the purposes of which such properties are held by the Company or any Restricted Subsidiary;
- (16) Liens (including extensions and renewals thereof) upon real or personal property; *provided* that, (a) such Lien is created solely for the purpose of securing Indebtedness of the type described under clause (2)(h) of the covenant described under “— Certain Covenants — Limitation on Indebtedness and Preferred Stock” and such Lien is created prior to, at the time of or within 180 days after the later of the acquisition or the completion of development, construction or improvement of such property, (b) the principal amount of the Indebtedness secured by such Lien does not exceed 100% of the cost of such property, development, construction or improvement and (c) such Lien shall not extend to or cover any property or assets other than such item of property and any improvements on such item; *provided* that, in the case of clauses (b) and (c), such Lien may cover other property or assets (instead of or in addition to such item of property or improvements) and the principal amount of Indebtedness secured by such Lien may exceed 100% of such cost if (x) such Lien is incurred in the ordinary course of business and (y) the aggregate book value of property or assets (as reflected in the most recent available consolidated financial statements of the Company (which may be internal consolidated financial statements) or, if any such property or assets have been acquired since the date of such financial statements, the cost of such property or assets) subject to Liens incurred pursuant to this clause (16) does not exceed 130% of the aggregate principal amount of Indebtedness secured by such Liens;
- (17) Liens on deposits of pre-sale proceeds made in order to secure the completion and delivery of pre-sold properties and issuance of the related land use title made in the ordinary course of business and not securing Indebtedness of the Company or any Restricted Subsidiary;
- (18) Liens on deposits made in order to comply with statutory obligations to maintain deposits for workers compensation claims, welfare and social benefits, property maintenance and other purposes specified by statute made in the ordinary course of business and not securing Indebtedness of the Company or any Restricted Subsidiary;
- (19) Liens on deposits made in order to secure the performance of the Company or any of its Restricted Subsidiaries in connection with the acquisition of real property or land use rights or personal property (including without limitation, Capital Stock) by the Company or any of its Restricted Subsidiaries (including, without limitation, by way of acquisition of Capital Stock of a Person) in the ordinary course of business and not securing Indebtedness of the Company or any Restricted Subsidiary;
- (20) Liens incurred on one or more bank accounts or deposits to secure Bank Deposit Secured Indebtedness;
- (21) Liens incurred or deposits made to secure Entrusted Loans;
- (22) Liens on current assets securing Indebtedness which is permitted to be Incurred under clause (2)(n) of the covenant described under “— Limitation on Indebtedness and Preferred Stock”;
- (23) Liens on the Capital Stock of the Person that is to be acquired under the relevant Staged Acquisition Agreement or Minority Staged Acquisition Agreement securing Indebtedness which is permitted to be Incurred under clause (2)(o) or (2)(u), respectively, of the covenant described under “— Limitation on Indebtedness and Preferred Stock”;

- (24) Liens granted by the Company or a Restricted Subsidiary in favor of a Financial Company Investor in respect of, and to secure, the Indebtedness permitted under clause (2)(q) of the covenant described under “— Limitation on Indebtedness and Preferred Stock”;
- (25) Liens securing Indebtedness permitted to be Incurred under clause (2)(r) of the covenant described under the caption entitled “— Limitation on Indebtedness and Preferred Stock”;
- (26) Liens securing Indebtedness Incurred under clause (2)(s) of the “— Certain covenants — Limitation on Indebtedness and Preferred Stock” covenant; *provided* that such Liens are already existing at the time such Indebtedness is Incurred and have not been created with the approval or consent of the Company (other than refinancings in the ordinary course) in anticipation of such acquisition;
- (27) Liens on Investment Properties securing Indebtedness of the Company or Restricted Subsidiary incorporated under the laws of the PRC permitted to be Incurred under clause (2)(t) of the covenant described under the caption entitled “— Limitation on Indebtedness and Preferred Stock”;
- (28) Liens securing Indebtedness permitted under clause (2)(v) of the covenant described under “— Limitation on Indebtedness and Preferred Stock”;
- (29) Liens securing Indebtedness of Restricted Subsidiaries (other than Subsidiary Guarantors or JV Subsidiary Guarantors) Incurred pursuant to clause 2(w) of the covenant described under “— Limitation on Indebtedness and Preferred Stock”; or
- (30) Liens on the Collateral;

provided that, with respect to the Collateral, “Permitted Liens” shall only refer to the Liens described in clauses (1) and (30) of this definition and, with respect to the issued Capital Stock of the Pledge Entity A, Liens specified in clause (11) (provided that such Liens are released within the time period and in the manner provided in the Yongqing Security Document).

“*Permitted Subsidiary Indebtedness*” means Indebtedness of, and all Preferred Stock issued by, the Restricted Subsidiaries (other than the Subsidiary Guarantors), taken as a whole (excluding any Public Indebtedness); *provided* that, on the date of the Incurrence of such Indebtedness and after giving effect thereto and the application of the proceeds thereof, the aggregate principal amount outstanding of all such Indebtedness (excluding the amount of any Public Indebtedness of any Restricted Subsidiary and Indebtedness of any Restricted Subsidiary permitted under clauses (2)(a), (2)(b), (2)(d), (2)(f), (2)(g), (2)(i), (2)(m) and (2)(o) of the covenant described under “— Limitation on Indebtedness and Preferred Stock”) does not exceed an amount equal to 15% of Total Assets.

“*Person*” means any individual, corporation, partnership, limited liability company, joint venture, trust, unincorporated organization or government or any agency or political subdivision thereof.

“*Pledgor*” means each and any Pledgor named herein and any other Person which pledges Collateral to secure the obligations of the Company under the Notes and the Indenture; *provided* that a Pledgor will not include any person whose pledge under the Security Documents has been released in accordance with the Security Documents, the Indenture and the Notes.

“*Pledge Entities Net Assets*” means, on any Valuation Date:

- (a) the aggregate fair value of the assets of all Pledge Entities as of such Valuation Date as set forth in the Valuation Report delivered with respect to such Valuation Date, minus
- (b) the total amount of (i) all Pledge Entities’ outstanding (A) short-term loans (短期借款), (B) current non-liquid liabilities (一年內到期的非流動負債), (C) long-term borrowings (長期借款) and (D) long-term bonds (長期債券) (the items in (i)(A) through (i)(D), the “Applicable Indebtedness”), (ii) guarantees in respect of any of the Applicable Indebtedness, and (iii) all

Applicable Indebtedness of other Persons secured by a Lien on any asset of any Pledge Entity, whether or not such Applicable Indebtedness is assumed by such Person, each as of such Valuation Date, presented in the consolidated financial statements of each of the Pledge Entity A and the Pledge Entity B (or such other entity, if applicable) prepared in accordance with PRC GAAP in Chinese language only in respect of the fiscal semi-annual or annual period ending on such Valuation Date (and if such Valuation Date is December 31, the consolidated financial statements shall be audited by a registered public accountant in the PRC); *provided* that, with respect to (iii) of this subparagraph, the amount of such Applicable Indebtedness for purposes of the calculation of the Pledge Entities Net Assets shall be the lowest of (a) the Fair Market Value of such asset at such date of determination; (b) the amount of such Applicable Indebtedness and (c) to the extent the amount of debt secured by such Lien is subject to a cap, the amount of such cap, and *provided further* that, if any Applicable Indebtedness meets the criteria of more than one of (i), (ii) or (iii) of this subparagraph, such Applicable Indebtedness shall be included in the calculation of the Pledge Entities Net Assets only once without duplication.

“*PRC*” means the People’s Republic of China, excluding, solely for purposes of this definition, the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan.

“*PRC Business Day*” means a day, other than a Saturday, Sunday or public holiday, on which commercial banks are generally open for business in the PRC.

“*PRC CJV*” means any Subsidiary that is a Sino-foreign cooperative joint venture enterprise with limited liability, established in the PRC pursuant to the Law of the People’s Republic of China on Sino-foreign Cooperative Joint Ventures adopted on April 13, 1988 (as most recently amended on October 13, 2000) and the Detailed Rules for the Implementation of the Law of the People’s Republic of China on Sino-foreign Cooperative Joint Ventures promulgated on September 4, 1995, as such laws may be amended.

“*PRC CJV Partner*” means with respect to a PRC CJV, the other party to the joint venture agreement relating to such PRC CJV with the Company or any Restricted Subsidiary.

“*PRC GAAP*” means generally accepted accounting principles in the PRC as in effect from time to time.

“*PRC Governmental Authorities*” means the Beijing Branch of the State Administration of Foreign Exchange and any other governmental authorities in the PRC that the Company deems in its good faith to have authority with respect to the execution of the Personal Guarantees.

“*PRC Restricted Subsidiary*” means a Restricted Subsidiary organized under the laws of the PRC.

“*Preferred Stock*” as applied to the Capital Stock of any Person means Capital Stock of any class or classes that by its terms is preferred as to the payment of dividends, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over shares of Capital Stock of any other class of such Person.

“*Pre-Registration Mortgage Guarantee*” means any Indebtedness of the Company or any Restricted Subsidiary consisting of a guarantee in favor of any bank or other similar financial institutions in the ordinary course of business of secured loans of purchasers of individual units of properties from the Company or any Restricted Subsidiary; *provided* that, any such guarantee shall be released in full on or before the perfection of a security interest in such properties under applicable law in favor of the relevant lender.

“*Property A*” means the number 2 parcel of the Company’s Yongqing project located in Langfang City owned and operated by Langfang Guoxing Real Estate Development Co., Ltd. (廊坊國興房地產開發有限公司) as described in the Yongqing Security Document.

“*Property B*” means Howard Johnson Glory Plaza Qidong (啟東國瑞豪生大酒店) located at No. 989 Xinanjiang Middle Road, Huilong County, Qidong City, China, owned by Qidong Glory Properties Limited (啟東市國瑞置業有限公司) and operated by Qidong Glory Hotel Management Co., Ltd. (啟東國瑞酒店管理有限公司), a wholly and directly owned subsidiary of Qidong Glory Properties Limited (啟東市國瑞置業有限公司) as described in the Qidong Security Document.

“*Properties*” means initially the Property A and the Property B.

“*Public Indebtedness*” means any bonds, debentures, notes or similar debt securities issued in a public offering or a private placement (other than the Notes) to institutional investors.

“*Qidong Security Document*” means the equity interest pledge agreement and any other agreements or instruments that may evidence or create any security interest in favor of the Collateral Agent or the Trustee for the benefit of themselves and of the Holders, in any or all of the Collateral pledged by the Pledgor B.

“*Rating Agencies*” means (1) S&P, (2) Moody’s and (3) Fitch, provided that if S&P, Moody’s or Fitch, two of any of the three or all three of them shall not make a rating of the Notes publicly available, a nationally recognized securities rating agency or agencies, as the case may be, selected by the Company, which shall be substituted for S&P, Moody’s or Fitch, two of any of the three or all three of them, as the case may be.

“*Rating Category*” means (1) with respect to S&P, any of the following categories: “BB”, “B”, “CCC”, “CC”, “C” and “D” (or equivalent successor categories); (2) with respect to Moody’s, any of the following categories: “Ba”, “B”, “Caa”, “Ca”, “C” and “D” (or equivalent successor categories); (3) with respect to Fitch, any of the following categories: “BB”, “B”, “CCC”, “CC”, “C” and “D” (or equivalent successor categories); and (4) the equivalent of any such category of S&P, Moody’s or Fitch used by another Rating Agency. In determining whether the rating of the Notes has decreased by one or more gradations, gradations within Rating Categories (“+” and “-” for S&P; “1”, “2” and “3” for Moody’s; “+” and “-” for Fitch; or the equivalent gradations for another Rating Agency) shall be taken into account (e.g., with respect to S&P, a decline in a rating from “BB+” to “BB”, as well as from “BB-” to “B+”, will constitute a decrease of one gradation).

“*Rating Date*” means in connection with actions contemplated under the caption “— Consolidation, Merger and Sale of Assets”, that date which is 90 days prior to the earlier of (x) the occurrence of any such actions as set forth therein and (y) a public notice of the occurrence of any such actions.

“*Rating Decline*” means in connection with actions contemplated under the caption “— Consolidation, Merger and Sale of Assets”, the notification by any of the Rating Agencies that such proposed actions will result in any of the events listed below:

- (a) in the event the Notes are rated by all three of the Rating Agencies on the Rating Date as Investment Grade, the rating of the Notes by any two of the three Rating Agencies shall be below Investment Grade;
- (b) in the event the Notes are rated by any two, but not all three, of the three Rating Agencies on the Rating Date as Investment Grade, the rating of the Notes by either of such two Rating Agencies shall be below Investment Grade;

- (c) in the event the Notes are rated by one, and only one, of the three Rating Agencies on the Rating Date as Investment Grade, the rating of the Notes by such Rating Agency shall be below Investment Grade; or
- (d) in the event the Notes are rated by three or less than three Rating Agencies and are rated below Investment Grade by all such Rating Agencies on the Rating Date, the rating of the Notes by any Rating Agency shall be decreased by one or more gradations (including gradations within Rating Categories as well as between Rating Categories).

“*Regulatory Approvals*” means the approval, registration, filing or non-objection from PRC Governmental Authorities.

“*Reference Treasury Dealer*” means each of any three investment banks of recognized standing that is a primary U.S. Government securities dealer in The City of New York, selected by the Company in good faith.

“*Reference Treasury Dealer Quotations*” means, with respect to each Reference Treasury Dealer and any redemption date, the average as determined by the Company, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing by such Reference Treasury Dealer at 5:00 p.m., New York City time, on the third Business Day preceding such redemption date.

“*Replacement Assets*” means, on any date, property or assets (other than current assets that are not land use rights, prepaid land lease payments, properties under development or completed properties held for sale) of a nature or type or that are used in a Permitted Business, including the Capital Stock of any Person holding such property or assets that is primarily engaged in a Permitted Business and will, upon the acquisition by the Company or any of its Restricted Subsidiaries of such Capital Stock, become a Restricted Subsidiary.

“*Restricted Subsidiary*” means any Subsidiary of the Company other than an Unrestricted Subsidiary.

“*S&P*” means Standard & Poor’s Ratings Services and its affiliates.

“*Sale and Leaseback Transaction*” means any direct or indirect arrangement relating to property (whether real, personal or mixed), now owned or hereafter acquired whereby the Company or any Restricted Subsidiary transfers such property to another Person and the Company or any Restricted Subsidiary leases it from such Person.

“*SAMR*” means the State Administration for Market Regulation (國家市場監督管理總局) or its competent local counterpart.

“*SAMR Registration*” has the meaning set forth under the caption “— The Security.”

“*SAMR Registration Records*” has the meaning set forth under the caption “— The Security.”

“*Secured Parties*” means the Trustee, the Collateral Agent and the Holders of the Notes.

“*Securities Act*” means the U.S. Securities Act of 1933, as amended.

“*Security Documents*” means initially the Yongqing Security Document and the Qidong Security Document and the security documents with respect to the Additional Collateral (if any).

“*Senior Indebtedness*” of the Company or a Restricted Subsidiary, as the case may be, means all Indebtedness of the Company or the Restricted Subsidiary, as relevant, whether outstanding on the Original Issue Date or thereafter created, except for Indebtedness which, in the instrument creating or evidencing the same, is expressly stated to be subordinated in right of payment to (a) in respect of the Company, the Notes, (b) in respect of any Restricted Subsidiary that is a Subsidiary Guarantor, its Subsidiary Guarantee, or (c) in respect of any Restricted Subsidiary that is a JV Subsidiary Guarantor, its JV Subsidiary Guarantee; *provided* that Senior Indebtedness does not include (1) any obligation to the Company or any Restricted Subsidiary, (2) Trade Payables or (3) Indebtedness Incurred in violation of the Indenture.

“*Staged Acquisition Agreement*” means an agreement between the Company or a Restricted Subsidiary and an Independent Third Party (x) pursuant to which the Company or such Restricted Subsidiary agrees to acquire 50% or more of the Capital Stock of a Person for a consideration that is not more than the Fair Market Value of such Capital Stock of such Person at the time the Company or such Restricted Subsidiary enters into such agreement and (y) which provides that the payment of the purchase price for such Capital Stock is made in more than one installment over a period of time.

“*Stated Maturity*” means, (1) with respect to any Indebtedness, the date specified in such debt security as the fixed date on which the final installment of principal of such Indebtedness is due and payable as set forth in the documentation governing such Indebtedness and (2) with respect to any scheduled installment of principal of or interest on any Indebtedness, the date specified as the fixed date on which such installment is due and payable as set forth in the documentation governing such Indebtedness.

“*Subordinated Indebtedness*” means, any Indebtedness of the Company, any Subsidiary Guarantor or any JV Subsidiary Guarantor that is contractually subordinated or junior in right of payment to the Notes, any Subsidiary Guarantee or any JV Subsidiary Guarantee, as applicable, pursuant to a written agreement to such effect.

“*Subsidiary*” means, with respect to any Person, any corporation, association or other business entity (i) of which more than 50% of the voting power of the outstanding Voting Stock is owned, directly or indirectly, by such Person and one or more other Subsidiaries of such Person or (ii) of which 50% or less of the voting power of the outstanding Voting Stock is owned, directly or indirectly, by such Person and one or more other Subsidiaries of such Person in each case which is ‘controlled’ and consolidated by such Person in accordance with GAAP; *provided, however*, that with respect to clause (ii) the occurrence of any event (other than the issuance or sale of Capital Stock) as a result of which such corporation, association or other business entity ceases to be “controlled” by such Person under GAAP and to constitute a Subsidiary of such Person shall be deemed to be an Investment by such Person in such entity.

“*Subsidiary Guarantee*” means any Guarantee of the obligations of the Company under the Indenture and the Notes by any Subsidiary Guarantor.

“*Subsidiary Guarantor*” means any initial Subsidiary Guarantor named herein and any other Restricted Subsidiary which guarantees the payment of the Notes pursuant to the Indenture and the Notes; *provided* that Subsidiary Guarantor does not include (a) any Person whose Subsidiary Guarantee has been released in accordance with the Indenture and the Notes or (b) any JV Subsidiary Guarantor.

“*Temporary Cash Investment*” means any of the following:

- (1) direct obligations of the United States of America, any state of the European Economic Area, the United Kingdom, the People’s Republic of China and Hong Kong or any agency of any of the foregoing or obligations fully and unconditionally Guaranteed by the United States of America, any state of the European Economic Area, the United Kingdom, the People’s Republic of China and Hong Kong or any agency of any of the foregoing, in each case maturing within one year;

- (2) demand or time deposit accounts, certificates of deposit and money market deposits maturing within 180 days of the date of acquisition thereof issued by a bank or trust company which is organized under the laws of the United States of America, any state thereof, any state of the European Economic Area, the United Kingdom or Hong Kong, and which bank or trust company has capital, surplus and undivided profits aggregating in excess of US\$100 million (or the Dollar Equivalent thereof) and has outstanding debt which is rated “A” (or such similar equivalent rating) or higher by at least one nationally recognized statistical rating organization (as defined in Rule 436 under the Securities Act) or any money market fund sponsored by a registered broker dealer or mutual fund distributor;
- (3) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clause (1) above entered into with a bank or trust company meeting the qualifications described in clause (2) above;
- (4) commercial paper, maturing not more than 180 days after the date of acquisition thereof, issued by a corporation (other than an Affiliate of the Company) organized and in existence under the laws of the United States of America, any state thereof or any foreign country recognized by the United States of America with a rating at the time as of which any investment therein is made of “P-1” (or higher) according to Moody’s or “A-1” (or higher) according to S&P;
- (5) securities, maturing within one year of the date of acquisition thereof, issued or fully and unconditionally Guaranteed by any state, commonwealth or territory of the United States of America, or by any political subdivision or taxing authority thereof, and rated at least “A” by S&P or Moody’s;
- (6) any money market fund that has at least 95% of its assets continuously invested in investments of the types described in clauses (1) through (5) above;
- (7) structured deposit products with a term no exceeding six months that are principal protected with any banks organized under the laws of (x) the PRC or Hong Kong, or (y) if made in the ordinary course of business, any jurisdiction where the Company or any of its Restricted Subsidiaries conducts business; and
- (8) time deposit accounts, certificates of deposit, overnight or call deposits and money market deposits with any banks or financial institutions organized under the laws of (x) the PRC or Hong Kong, or (y) if made in the ordinary course of business, any jurisdiction where the Company or any of its Restricted Subsidiaries conducts business;

“*Total Assets*” means, as of any date, the total consolidated assets of the Company and its Restricted Subsidiaries measured in accordance with GAAP as of the last day of the most recent semi-annual period for which consolidated financial statements of the Company (which the Company shall use its best efforts to compile on a timely manner) are available (which may be internal consolidated financial statements); *provided* that (1) only with respect to clause (2)(h) of “— Certain Covenants — Limitation on Indebtedness and Preferred Stock” covenant and the definition of “Permitted Subsidiary Indebtedness”, Total Assets shall be calculated after giving pro forma effect to include the cumulative value of all of the real or personal property or equipment the acquisition, development, construction or improvement of which requires or required the Incurrence of Indebtedness and calculation of Total Assets thereunder, as measured by the purchase price or cost therefor or budgeted cost provided in good faith by the Company or any of its Restricted Subsidiaries to the bank or other similar financial institutional lender providing such Indebtedness and (2) only with respect to clause (2)(s) of “— Limitation on Indebtedness and Preferred Stock” covenant, with respect to the Incurrence of any Acquired Indebtedness as a result of any Person becoming a Restricted Subsidiary, Total Assets shall be calculated after giving pro forma effect to include the consolidated assets of such Restricted Subsidiary and any other change to the consolidated assets of the Company as a result of such Person becoming a Restricted Subsidiary; and (3) only with respect to any Person becoming a Non-Guarantor Subsidiary,

pro forma effect shall at such time be given to the consolidated assets of such Non-Guarantor Subsidiary (including giving pro forma effect to any other change to the consolidated assets of the Company, in each case as a result of such Person becoming a Non-Guarantor Subsidiary).

“*Trading Day*” means a day (other than a Saturday, Sunday or gazetted public holiday) on which the Stock Exchange of Hong Kong is open for securities trading.

“*Trade Payables*” means, with respect to any Person, any accounts payable or any other indebtedness or monetary obligation to trade creditors created, assumed or Guaranteed by such Person or any of its Subsidiaries arising in the ordinary course of business in connection with the acquisition of goods or services.

“*Transaction Date*” means, with respect to the Incurrence of any Indebtedness, the date such Indebtedness is to be Incurred and, with respect to any Restricted Payment or any Permitted Investment, the date such Restricted Payment or Permitted Investment is to be made.

“*Unrestricted Subsidiary*” means, unless redesignated as a Restricted Subsidiary pursuant to the covenant summarized under the caption “— Certain covenants — Designation of Restricted and Unrestricted Subsidiaries,” Guoshang Holdings Limited, Guochi Holdings Limited, Guoyang Holdings Limited, Beijing Ruixin Management Limited, Glory Xingye (Beijing) Investment Limited, Guoxing International Holdings Limited, Guoxing (HK) International Holdings Limited, Beijing Daqian Nade Information Consulting Limited and Beijing Guoxing Wanxun Technology and Trading Consulting Limited; any Subsidiary of the Company that at the time of determination shall be designated an Unrestricted Subsidiary by the Board of Directors in the manner provided in the Indenture; and any Subsidiary of an Unrestricted Subsidiary.

“*U.S. Government Obligations*” means securities that are (1) direct obligations of the United States of America for the payment of which its full faith and credit is pledged or (2) obligations of a Person controlled or supervised by and acting as an agency or instrumentality of the United States of America the payment of which is unconditionally guaranteed as a full faith and credit obligation by the United States of America, which, in either case, are not callable or redeemable at the option of the issuer thereof at any time prior to the Stated Maturity of the Notes, and shall also include a depository receipt issued by a bank or trust company as custodian with respect to any such U.S. Government Obligation or a specific payment of interest on or principal of any such U.S. Government Obligation held by such custodian for the account of the holder of a depository receipt; *provided* that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depository receipt from any amount received by the custodian in respect of the U.S. Government Obligation or the specific payment of interest on or principal of the U.S. Government Obligation evidenced by such depository receipt.

“*Voting Stock*” means, with respect to any Person, Capital Stock of any class or kind ordinarily having the power to vote for the election of directors, managers or other voting members of the governing body of such Person.

“*Wholly Owned*” means, with respect to any Subsidiary of any Person, the ownership of all of the outstanding Capital Stock of such Subsidiary (other than any director’s qualifying shares or Investments by foreign nationals mandated by applicable law) by such Person or one or more Wholly Owned Subsidiaries of such Person; *provided* that Subsidiaries that are PRC CJVs shall not be considered Wholly Owned Subsidiaries unless such Person or one or more Wholly Owned Subsidiaries of such Person is entitled to 95% or more of the economic benefits distributable by such Subsidiary.

“*Yongqing Security Document*” means the equity interest pledge agreement and any other agreements or instruments that may evidence or create any security interest in favor of the Collateral Agent or the Trustee for the benefit of themselves and of the Holders, in any or all of the Collateral pledged by the Pledgor A.

TAXATION

The following summary of certain Cayman Islands, Hong Kong and PRC tax consequences relating to the Notes is based upon applicable laws, regulations, rulings and decisions as of the date of this offering memorandum, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Persons considering the purchase of Notes should consult their own tax advisors concerning the tax consequences of the purchase, ownership and disposition of Notes, including such possible consequences under the laws of their country of citizenship, residence or domicile.

Cayman Islands

Under the existing laws of the Cayman Islands, payments of interest, principal or premium on the Notes will not be subject to taxation and no withholding will be required on the payment of interest, principal or premium to any holder of the Notes, as the case may be, nor will gains derived from the disposal of the Notes be subject to Cayman Islands income or corporation tax. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance tax or gift tax. The Cayman Islands are not party to any double taxation treaties.

No stamp duty is payable in respect of the issue of the Notes. The holder of any Notes (or a legal personal representative of such holder) whose Notes are brought into the Cayman Islands may in certain circumstances be liable to pay stamp duty imposed under the laws of the Cayman Islands in respect of such Notes. Certificates evidencing registered Notes, to which title is not transferable by delivery, will be subject to Cayman Islands stamp duty. However, an instrument transferring title to a registered Note, if brought to or executed in the Cayman Islands, would be subject to nominal Cayman Islands stamp duty. Stamp duty will be payable on any documents executed by the Company if any such documents are executed in or brought into the Cayman Islands or produced before the courts of the Cayman Islands.

Hong Kong

Withholding Tax

No withholding tax in Hong Kong is payable on payments of principal (including any premium payable on redemption of the Notes) or interest in respect of the Notes.

Profits Tax

Hong Kong profits tax is charged on every person carrying on a trade, profession or business in Hong Kong in respect of assessable profits arising in or derived from Hong Kong from such trade, profession or business. Under the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) (the "Inland Revenue Ordinance"), as it is currently applied, Hong Kong profits tax may be charged on revenue profits arising on the sale, disposal or redemption of the Notes where such sale, disposition or redemption is or forms part of a trade, profession or business carried on in Hong Kong. Interest payments on the Notes will be subject to Hong Kong profits tax where such payments have a Hong Kong source, and are received by or accrue to:

- a financial institution (as defined in the Inland Revenue Ordinance) and arises through or from the carrying on by the financial institution of its business in Hong Kong; or
- corporation carrying on a trade, profession or business in Hong Kong; or
- a person, other than a corporation, carrying on a trade, profession or business in Hong Kong and such distributions is in respect of the funds of the trade, profession or business.

Although no tax is imposed in Hong Kong in respect of capital gains, Hong Kong profits tax may be chargeable on trading gains arising on the sale or disposition of the Notes where such transactions are or form part of a trade, profession or business carried on in Hong Kong.

Stamp Duty

No Hong Kong stamp duty will be chargeable upon the issue or transfer of a Note (for so long as the register of holders of the Notes is maintained outside Hong Kong).

PRC

Taxation on Interest

The EIT Law imposes a withholding tax at the rate of 10% on interest from PRC sources paid to holders of notes that are “non-resident enterprises” if any such “non-resident enterprise” holder does not have an establishment or place of business in China or if, despite the existence of an establishment or place of business in China, the relevant income is not effectively connected with such establishment or place of business in China. We may be considered a PRC tax resident enterprise, as described in “Risk Factors — Risks Relating to the PRC — We may be deemed a PRC resident enterprise under the PRC Enterprise Income Tax Law and be subject to PRC taxation on our worldwide income, and payments on, or proceeds from a sale of, the Notes may be subject to PRC tax.” Although the issue is not entirely clear, if we are considered a PRC resident enterprise, interest (and redemption premium, if any) paid to non-resident holders on the Notes may be treated as income derived from sources within China and be subject to PRC withholding tax at the rate of 10% in the case of non-resident enterprise holders of the Notes pursuant to the EIT Law, or PRC individual withholding tax at the rate of 20% in the case of non-resident individual holders of the Notes pursuant to PRC individual income tax laws. We currently do not intend to withhold taxes from interest payments or payments of redemption premium (if any), but there can be no assurance that the PRC income tax authorities will accept our position on this issue. To the extent that China has entered into arrangements relating to the avoidance of double taxation with any jurisdiction, such as Hong Kong, that allow a lower rate of tax, such lower rate may apply to qualified investors in the Notes.

Taxation on Capital Gains

The EIT Law imposes a tax at the rate of 10% on capital gains from PRC sources realized by holders of notes that are “non-resident enterprises” if any such “non-resident enterprise” holder does not have an establishment or place of business in China or if, despite the existence of an establishment or place of business in China, the relevant gain is not effectively connected with such establishment or place of business in China. We may be considered a PRC tax resident enterprise, as described in “Risk Factors — Risks Relating to the PRC — We may be deemed a PRC resident enterprise under the PRC Enterprise Income Tax Law and be subject to PRC taxation on our worldwide income, and payments on, or proceeds from a sale of, the Notes may be subject to PRC tax.” Although the issue is not entirely clear, if we are considered a PRC resident enterprise, the capital gains realized by non-resident holders of the Notes may be treated as income derived from sources within China and be subject to PRC withholding tax at the rate of 10% in the case of non-resident enterprise holders of the Notes pursuant to the EIT Law, or PRC individual income tax at the rate of 20% in the case of non-resident individual holders of the Notes pursuant to PRC individual income tax laws. To the extent that China has entered into arrangements relating to the avoidance of double taxation with any jurisdiction, such as Hong Kong, that allow a lower rate of withholding tax, such lower rate may apply to qualified investors in the Notes.

Stamp duty

No PRC stamp tax will be chargeable upon the issue or transfer of a Note (for so long as the register of holders of the Notes is maintained outside China).

PLAN OF DISTRIBUTION

Haitong International Securities Company Limited is acting as the sole global coordinator, the sole lead manager and the sole bookrunner and as the Initial Purchaser of the offering. Subject to the terms and conditions stated in the purchase agreement dated the date of this offering memorandum (the “Purchase Agreement”), the Initial Purchaser has agreed to purchase, and we have agreed to sell to the Initial Purchaser, the Notes in the aggregate principal amount of US\$.

The Purchase Agreement provides that the Company will pay the Initial Purchaser a customary commission. The Purchase Agreement provides that the obligations of the Initial Purchaser to purchase the Notes are subject to approval of legal matters by counsel and to other conditions. The Initial Purchaser must purchase all the Notes if it purchases any of the Notes.

The Initial Purchaser proposes to resell the Notes at the offering price set forth on the cover page of this offering memorandum only outside the United States in offshore transactions in reliance on Regulation S. See the section entitled “Transfer Restrictions” for additional details. The price at which the Notes are offered may be changed at any time without notice. The Notes and the Subsidiary Guarantees have not been and will not be registered under the U.S. Securities Act or any state securities laws and may not be offered or sold within the United States except in transactions exempt from, or not subject to, the registration requirements of the U.S. Securities Act. The Initial Purchaser may offer and sell the Notes through certain of its affiliates.

The Notes will constitute a new class of securities with no established trading market. Application will be made to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Notes by way of debt issues to Professional Investors only. Application will also be made for the listing and quotation of the Notes on the SGX-ST. However, we cannot assure you that the prices at which the Notes will sell in the market after this offering will not be lower than the initial offering price or that an active trading market for the Notes will develop and continue after this offering. The Initial Purchaser has advised us that it currently intends to make a market in the Notes. However, it is not obligated to do so and it may discontinue any market-making activities with respect to the Notes at any time without notice. Accordingly, we cannot assure you as to the liquidity of, or the trading market for, the Notes.

In connection with the offering, Haitong International Securities Company Limited, as stabilization manager, or any person acting on its behalf, may engage in over-allotment, stabilizing transactions, syndicate covering transactions and penalty bids to the extent permitted by applicable laws and regulations. Over-allotment involves sales in excess of the offering size, which creates a short position. Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum. Covering transactions involve purchase of the Notes in the open market after the distribution has been completed in order to cover short positions. Penalty bids permit the stabilization manager to reclaim a selling concession from a dealer when the Notes originally sold by such dealer are purchased in a stabilizing transaction or a covering transaction to cover short positions. Neither the Company nor the Initial Purchaser makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Notes. In addition, neither we nor the Initial Purchaser makes any representation that the Initial Purchaser will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

We expect to deliver the Notes against payment for the Notes on or about the date specified in the last paragraph of the cover page of this offering memorandum, which will be the _____ business days following the date of the pricing of the Notes. Under Rule 15c6-1 of the Exchange Act, trades in the secondary market generally settle in three business days, purchasers who wish to trade Notes prior to the closing date will be required, by virtue of the fact that the Notes initially will settle in T+ _____, to specify alternative settlement arrangements to prevent a failed settlement. Purchasers of the Notes who wish to trade the Notes on the date of pricing should consult their own advisor.

The Initial Purchaser or its affiliates have, from time to time, engaged in transactions with and performed services for us in the ordinary course of business for which they have received customary fees and reimbursement of expenses and they may continue to do so in the future. We may enter into hedging or other derivative transactions as part of our risk management strategy with the Initial Purchaser and its affiliates, which may include transactions relating to our obligations under the Notes. Our obligations under these transactions may be secured by cash or other collateral.

In connection with this offering of the Notes, the Initial Purchaser and/or its affiliates may act as an investor for its own account and may take up the Notes in the offering and in that capacity may retain, purchase or sell for its own account such securities and any of our other securities or related investments and may offer or sell such securities or other investments otherwise than in connection with the offering of the Notes. Accordingly, references herein to the Notes being offered should be read as including any offering of the Notes to the Initial Purchaser and/or its affiliates acting in such capacity. Such persons do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

We and the Subsidiary Guarantors have agreed to indemnify the Initial Purchaser against certain liabilities, including liabilities under the U.S. Securities Act, or to contribute to payments that the Initial Purchaser may be required to make because of any of those liabilities.

If a jurisdiction requires that this offering of the Notes be made by a licensed broker or dealer and the Initial Purchaser or any affiliate of the Initial Purchaser is a licensed broker or dealer in that jurisdiction, the offering of the Notes shall be deemed to be made by the Initial Purchaser or such affiliate on behalf of the Company in such jurisdiction.

Selling Restrictions

General

No action has been taken or will be taken in any jurisdiction by us or the Initial Purchaser that would permit a public offering of the Notes, or the possession, circulation or distribution of this offering memorandum or any other material relating to the Notes or this offering, in any jurisdiction where action for that purpose is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this offering memorandum nor such other material may be distributed or published, in or from any country or jurisdiction except in compliance with any applicable rules and regulations of such country or jurisdiction.

PRIIPs Regulation/Prohibition of sales to EEA retail investors

The Initial Purchaser has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes to any retail investor in the EEA.

For the purposes of this provision, the expression “retail investor” means a person who is one (or more) of the following:

- (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or
- (ii) a customer within the meaning of 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.

Furthermore, the Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available by any person to any retail investor in the EEA. Consequently no key information document as would be required by 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.

UK PRIIPs Regulation/Prohibition of sales to UK retail investors

The Initial Purchaser has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes to any retail investor in the UK.

For the purposes of this provision, the expression “retail investor” means a person who is one (or more) of the following:

- (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 EUWA; or
- (ii) a customer within the meaning of the provisions of 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; and

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.

Furthermore, 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 UK. Consequently no key information document required by Regulation (EU) No 1286/2014 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.

United States

The Notes and the Subsidiary Guarantees have not been and will not be registered under the U.S. Securities Act or any state securities laws and may not be offered or sold within the United States except in transactions exempt from, or not subject to, the registration requirements of the U.S. Securities Act. See the section entitled “Transfer Restrictions.”

United Kingdom

The Initial Purchaser has represented and agreed that:

- (a) 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 Financial Services and Markets Act 2000 (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 Company; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to such Notes in, from or otherwise involving the United Kingdom.

Hong Kong

The Initial Purchaser has represented and agreed that:

- (a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (i) to “professional investors” as defined in the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (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 (Chapter 32 of the Laws of the Hong Kong) or which do not constitute an offer to the public within the meaning of that Ordinance; 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 that the SFO.

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 “FIEA”) and the Initial Purchaser has represented and agreed that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

Singapore

This offering memorandum has not been and will not be registered as a prospectus with the Monetary Authority of Singapore (the “MAS”). Accordingly, the Notes may not be offered or sold or made the subject of an invitation for subscription or purchase nor may this offering memorandum or any other document or material in connection with the offer or sale or invitation for subscription or purchase of any Notes be circulated or distributed, whether directly or indirectly, to any person in Singapore other than (a) to an institutional investor (as defined in Section 4A of the SFA) pursuant to Section 274 of the SFA, (b) to a relevant person (as defined in Section 275(2) of the SFA) under Section 275(1) of the SFA or to any person pursuant to Section 275(1A) of the SFA and in accordance with the conditions specified

in Section 275 of the SFA and (where applicable) Regulation 3 of the Securities and Futures (Classes of Investors) Regulations 2018 of Singapore or (c) 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;
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary 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; or
- (ii) where no consideration is or will be given for the transfer; or
- (iii) where the transfer is by operation of law; or
- (iv) pursuant to 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 of Singapore.

Any reference to the SFA is a reference to the Securities and Futures Act, Chapter 289 of Singapore and a reference to any term as defined in the SFA or any provision in the SFA is a reference to that term or provision as modified or amended from time to time including by such of its subsidiary legislation as may be applicable at the relevant time.

Notification under Section 309B(1) of the SFA — the Company has determined, and hereby notifies all persons (including all relevant persons (as defined in Section 309A(1) of the SFA)), that the Notes are prescribed capital markets products (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore) 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).

PRC

The Initial Purchaser has represented and agreed that neither it nor any of its affiliates has offered or sold or will offer or sell any of the Notes in the PRC (excluding Hong Kong, Macau and Taiwan) as part of the initial distribution of the Notes.

Cayman Islands

No Notes will be offered or sold, directly or indirectly, to the public in the Cayman Islands.

TRANSFER RESTRICTIONS

Because of the following restrictions, we encourage you to consult legal counsel prior to making any offer, sale, resale, pledge or other transfer of the Notes, including the Subsidiary Guarantees and the JV Subsidiary Guarantees (if any) (collectively, the "Securities").

The Notes are subject to restrictions on transfer as summarized below. By purchasing the Securities, you will be deemed to have made the following acknowledgments, representations to, and agreements with, us and the Initial Purchaser:

1. You understand and acknowledge that:
 - the Securities have not been registered under the U.S. Securities Act or any other applicable securities laws;
 - the Securities are being offered for resale in transactions that do not require registration under the U.S. Securities Act or any other securities laws;
 - the Securities are being offered and sold only outside the United States in offshore transactions in reliance on Rule 903 of Regulation S under the U.S. Securities Act; and
 - unless so registered, the Securities may not be sold or otherwise transferred except under an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act or any other applicable securities laws.
2. You agree to, and each subsequent holder is required to, notify any purchaser of the Notes from it of the resale restrictions referred to in this clause, if then applicable.
3. You represent that you are either (i) not an affiliate (as defined in Rule 144 under the U.S. Securities Act) of ours, that you are not acting on our behalf and that you are purchasing the Securities in an offshore transaction in accordance with Regulation S or (ii) an affiliate (as defined in Rule 144 under the U.S. Securities Act) of ours, that you are purchasing the Securities in an offshore transaction in accordance with Regulation S and that you will only resell the Securities in an exempt transaction in accordance with the U.S. Securities Act.
4. You acknowledge that neither we nor the Initial Purchaser nor any person representing us or the Initial Purchaser has made any representation to you with respect to us or the offering of the Securities, other than the information contained in this offering memorandum. You represent that you are relying only on this offering memorandum in making your investment decision with respect to the Securities. You agree that you have had access to such financial and other information concerning us and the Securities as you have deemed necessary in connection with your decision to purchase the Securities including an opportunity to ask questions of and request information from us.
5. You represent that you are purchasing the Securities for your own account, or for one or more investor accounts for which you are acting as a fiduciary or agent, in each case not with a view to, or for offer or sale in connection with, any distribution of the Securities in violation of the U.S. Securities Act.

6. You also acknowledge that each note will contain a legend substantially to the following effect:

THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "U.S. SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, SUCH REGISTRATION. BY ITS ACQUISITION HEREOF, THE HOLDER HEREOF REPRESENTS THAT IT IS ACQUIRING THIS SECURITY IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH REGULATION S UNDER THE U.S. SECURITIES ACT.

7. You acknowledge that we, the Initial Purchaser and others will rely upon the truth and accuracy of the above acknowledgments, representations and agreements. You agree that if any of the acknowledgments, representations or agreements you are deemed to have made by your purchase of the Securities is no longer accurate, you will promptly notify us and the Initial Purchaser. If you are purchasing any Securities as a fiduciary or agent for one or more investor accounts, you represent that you have sole investment discretion with respect to each of those accounts and that you have full power to make the above acknowledgments, representations and agreements on behalf of each account.

RATINGS

The Notes are expected to be rated B- by Fitch Ratings Ltd. The rating reflects the rating agency's assessment of the likelihood of timely payment of the principal of and interest on the Notes. The rating does not address the payment of any Additional Amounts and does not constitute recommendations to purchase, hold or sell the Notes inasmuch as such rating does not comment as to market price or suitability for a particular investor. Such rating should be evaluated independently of any other rating on the Notes, on other securities of ours, or on us. Additionally, we have been assigned B- with a negative outlook by Fitch Ratings Ltd. and CCC with CreditWatch developing by Standard & Poor's Ratings Services. We cannot assure you that the rating on the Notes or our corporate credit rating will remain in effect for any given period or that the ratings will not be lowered, put on negative outlook or CreditWatch negative, or otherwise revised or withdrawn entirely by such rating agencies in the future if in their judgment circumstances so warrant.

LEGAL MATTERS

Certain legal matters with respect to the Notes will be passed upon for us by Milbank LLP as to matters of United States federal and New York law, Jingtian & Gongcheng LLP as to matters of Hong Kong law, Ogier as to matters of Cayman Islands law and British Virgin Islands law and Jingtian & Gongcheng as to matters of PRC law. Certain legal matters will be passed upon for the Initial Purchaser by Davis Polk & Wardwell as to matters of United States federal and New York law and Jiayuan Law as to matters of PRC law.

INDEPENDENT ACCOUNTANTS

The consolidated financial information as of and for the years ended December 31, 2017, 2018 and 2019 included in this offering memorandum have been audited by Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, as stated in their reports appearing herein. The condensed consolidated interim financial statements as of and for the six months period ended June 30, 2020 included in this offering memorandum have been reviewed by Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, as stated in their report appearing herein.

GENERAL INFORMATION

Consents

We have obtained all necessary consents, approvals and authorizations in the Cayman Islands, the British Virgin Islands and Hong Kong in connection with the issue and performance of the Notes and the Subsidiary Guarantees. The entering into of the Indenture, the issue of the Notes, and the provision of the Subsidiary Guarantees have been authorized by a resolution of each of our Board of Directors and the board of directors of each Subsidiary Guarantor dated January 4, 2021. The provision of the Collateral and entering into of the Share Charges have been authorized by a resolution of the board of directors of the Pledgors dated January 4, 2021.

Litigation

Except as disclosed in this offering memorandum, there are no legal or arbitration proceedings against or affecting us, any of our subsidiaries or any of our assets, nor are we aware of any pending or threatened proceedings, which are or might be material in the context of this issue of the Notes or the Subsidiary Guarantees.

No material adverse change

Except as otherwise disclosed in this offering memorandum, there has been no adverse change, or any development reasonably likely to involve an adverse change, in the condition (financial or otherwise) of our general affairs since June 30, 2020 that is material in the context of the issue of the Notes.

Documents available

For so long as any of the Notes are outstanding, copies of the Indenture may be inspected by holders of the Notes upon satisfactory proof of holding free of charge during normal business hours on any business day (except public holidays) at the corporate trust office of the Trustee.

For so long as any of the Notes are outstanding, copies of our audited financial statements for the last two financial years, if any, may be obtained during normal business hours on any business day (except public holidays) at the corporate trust office of the Trustee.

Clearing systems

The Notes have been accepted for clearance through Euroclear and Clearstream. Certain trading information with respect to the Notes is set forth below:

| | ISIN | Common Code |
|-----------------------------|--------------|-------------|
| Regulation S Notes. | XS2280222410 | 228022241 |

Listing of the Notes

Application will be made to the Hong Kong Stock Exchange for the issuance and listing of the Notes by way of debt issues to Professional Investors only as described in this offering memorandum. Hong Kong Exchanges and Clearing Limited and the Hong Kong Stock Exchange take no responsibility for the contents of this offering memorandum, 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 memorandum. Admission of the Notes to the listing of the Hong Kong Stock Exchange is not to be taken as an indication of the merits of the Notes or us.

Application will also be made for the listing and quotation of the Notes on the SGX-ST. Approval in-principle for the listing and quotation of the Notes on the SGX-ST is not to be taken as an indication of the merits of the Notes, the Company, any Subsidiary Guarantor, any JV Subsidiary Guarantor or any Personal Guarantor. The Notes will be traded on the SGX-ST in a minimum board lot size of US\$200,000 for so long as any of the Notes are listed on the SGX-ST and the rules of the SGX-ST so require.

For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, we will appoint and maintain a paying agent in Singapore, where the Notes may be presented or surrendered for payment or redemption, in the event that a global Note or global certificate is exchanged for definitive Notes. In addition, in the event that a global Note or global certificate is exchanged for definitive Notes, an announcement of such exchange shall be made by or on behalf of us through the SGX-ST and such announcement will include all material information with respect to the delivery of the definitive Notes, including details of the paying agent in Singapore.

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¹ Report on review of condensed consolidated financial statements on our unaudited interim condensed consolidated financial statements for the six months ended June 30, 2020 set out herein are reproduced from our Interim Report for the six months ended June 30, 2020. Page references referred to in the abovenamed reports refer to pages set out in such interim report.

² The accountants' report on our consolidated financial statements for the years ended December 31, 2018 and 2019 set out herein are reproduced from our annual reports for the years ended December 31, 2018 and 2019 respectively. Page references referred to in the abovenamed reports refer to pages set out in such annual reports.

Report on Review of Condensed Consolidated Financial Statements

Deloitte.

德勤

TO THE BOARD OF DIRECTORS OF GUORUI PROPERTIES LIMITED

(INCORPORATED UNDER THE NAME OF “GLORY LAND COMPANY LIMITED (國瑞置業有限公司)” IN THE CAYMAN ISLANDS AND CARRYING ON BUSINESS IN HONG KONG AS “GUORUI PROPERTIES LIMITED”)

INTRODUCTION

We have reviewed the condensed consolidated financial statements of Guorui Properties Limited (incorporated under the name of “Glory Land Company Limited (國瑞置業有限公司)” in the Cayman Islands and carrying on business in Hong Kong as “Guorui Properties Limited”) (the “Company”) and its subsidiaries set out on pages 100 to 139, which comprise the condensed consolidated statement of financial position as of June 30, 2020 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”) issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements 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 International Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the International Auditing and Assurance Standards Board. A review of these condensed consolidated financial statements 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 International 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 financial statements are not prepared, in all material respects, in accordance with IAS 34.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

August 31, 2020

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended June 30, 2020

| | Notes | Six months ended June 30, | |
|---|-------|--------------------------------|--------------------------------|
| | | 2020 RMB'000 (Unaudited) | 2019 RMB'000 (Unaudited) |
| Revenue | 3 | | |
| Contract with customers | | 3,043,548 | 3,489,792 |
| Leases | | 278,817 | 285,120 |
| Total revenue | | 3,322,365 | 3,774,912 |
| Cost of sales and services | | (2,450,965) | (2,700,246) |
| Gross profit | | 871,400 | 1,074,666 |
| Other gains and losses | 5 | (43,687) | (17,993) |
| Other income | | 111,855 | 76,110 |
| Change in fair value of investment properties | 11 | 238,363 | 531,751 |
| Impairment losses under expected credit loss model, net of reversal | | (5,178) | – |
| Distribution and selling expenses | | (128,337) | (164,006) |
| Administrative expenses | | (243,894) | (268,730) |
| Other expenses | | (5,666) | (21,977) |
| Share of losses of associates | | (1,247) | (5,364) |
| Share of losses of joint ventures | | (8,088) | (5,992) |
| Finance costs | 6 | (220,466) | (201,971) |
| Profit before tax | | 565,055 | 996,494 |
| Income tax expense | 7 | (284,032) | (426,647) |
| Profit for the period | 8 | 281,023 | 569,847 |

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended June 30, 2020

| | Notes | Six months ended June 30, | |
|---|-------|--------------------------------|--------------------------------|
| | | 2020 RMB'000 (Unaudited) | 2019 RMB'000 (Unaudited) |
| Other comprehensive income: | | | |
| Items that will not be reclassified to profit or loss: | | | |
| Change in fair value of equity instruments at fair value through other comprehensive income | | – | 3,893 |
| Income tax relating to items that will not be reclassified to profit or loss | | – | (973) |
| Other comprehensive income for the period, net of tax | | – | 2,920 |
| Total comprehensive income for the period | | 281,023 | 572,767 |
| Profit for the period attributable to: | | | |
| Owners of the Company | | 71,306 | 428,576 |
| Non-controlling interests | | 209,717 | 141,271 |
| | | 281,023 | 569,847 |
| Total comprehensive income for the period attributable to: | | | |
| Owners of the Company | | 71,306 | 431,233 |
| Non-controlling interests | | 209,717 | 141,534 |
| | | 281,023 | 572,767 |
| EARNINGS PER SHARE | | | |
| – Basic (RMB cents) | 9 | 1.6 | 9.6 |
| – Diluted (RMB cents) | | 1.6 | 9.6 |

Condensed Consolidated Statement of Financial Position

As at June 30, 2020

| | <i>Notes</i> | As at June 30, 2020 RMB'000 (Unaudited) | As at December 31, 2019 RMB'000 (Audited) |
|--|--------------|--|--|
| Non-current Assets | | | |
| Investment properties | 11 | 20,996,000 | 21,150,000 |
| Property, plant and equipment | 12 | 1,985,294 | 1,885,865 |
| Right-of-use assets | 12 | 274,205 | 279,824 |
| Other non-current assets | | 1,572,511 | 1,566,745 |
| Interests in joint ventures | | 25,371 | 30,089 |
| Interests in associates | | 7,800 | 5,000 |
| Equity instruments at fair value through other comprehensive income ("FVTOCI") | 13 | 32,400 | 32,400 |
| Deposit paid for acquisition of a subsidiary | | 210,770 | 169,620 |
| Deferred tax assets | | 714,418 | 536,185 |
| Amounts due from related parties | 26(b) | 2,033,669 | – |
| Restricted bank deposits | | 475,158 | 719,615 |
| Value added tax and tax recoverable | | 1,837,909 | 1,666,559 |
| | | 30,165,505 | 28,041,902 |
| Current Assets | | | |
| Inventories | | 95 | 61 |
| Deposits paid for land acquisition | | 388,296 | 369,301 |
| Properties under development for sale | | 38,849,863 | 37,333,243 |
| Properties held for sale | | 4,820,050 | 5,361,690 |
| Trade and other receivables, deposits and prepayments | 14 | 2,458,673 | 2,811,721 |
| Contract assets | 15 | 1,551,003 | 1,442,134 |
| Contract cost | | 90,509 | 76,919 |
| Value added tax and tax recoverable | | 792,721 | 791,981 |
| Amounts due from related parties | 26(b) | 2,835,109 | 4,440,856 |
| Restricted bank deposits | | 623,067 | 959,615 |
| Bank balances and cash | | 1,855,676 | 536,926 |
| | | 54,265,062 | 54,124,447 |
| Total assets classified as held for sale | 16 | 631,360 | – |
| | | 54,896,422 | 54,124,447 |

Condensed Consolidated Statement of Financial Position

As at June 30, 2020

| | <i>Notes</i> | As at June 30, 2020 RMB'000 (Unaudited) | As at December 31, 2019 RMB'000 (Audited) |
|--|--------------|--|--|
| Current Liabilities | | | |
| Trade and other payables | 17 | 6,360,921 | 6,439,342 |
| Contract liabilities | | 19,144,946 | 17,332,702 |
| Amounts due to related parties | 26(c) | 5,671,096 | 5,322,007 |
| Lease liabilities | | 1,666 | 1,600 |
| Tax payable | | 3,125,305 | 2,948,144 |
| Bank and trust borrowings | 18 | 6,048,341 | 6,317,710 |
| Corporate bonds | 19 | 88,723 | 65,787 |
| Senior notes | 20 | 1,139,760 | 1,734,974 |
| | | 41,580,758 | 40,162,266 |
| Liabilities associated with assets classified as held for sale | 16 | 482,180 | – |
| | | 42,062,938 | 40,162,266 |
| Net Current Assets | | 12,833,484 | 13,962,181 |
| Total Assets less Current Liabilities | | 42,998,989 | 42,004,083 |
| Non-current Liabilities | | | |
| Rental deposits received | 17 | 118,062 | 122,063 |
| Lease liabilities | | 2,175 | 2,974 |
| Bank and trust borrowings | 18 | 17,026,083 | 15,748,894 |
| Corporate bonds | 19 | 500,000 | 500,000 |
| Senior notes | 20 | 2,831,146 | 3,076,320 |
| Deferred tax liabilities | | 3,788,997 | 3,925,302 |
| | | 24,266,463 | 23,375,553 |
| Net Assets | | 18,732,526 | 18,628,530 |
| Capital and Reserves | | | |
| Share capital | | 3,520 | 3,520 |
| Reserves | | 12,462,815 | 12,541,509 |
| Equity attributable to owners of the Company | | 12,466,335 | 12,545,029 |
| Non-controlling interests | | 6,266,191 | 6,083,501 |
| Total Equity | | 18,732,526 | 18,628,530 |

Condensed Consolidated Statement of Changes in Equity

For the six months Ended June 30, 2020

| | Attributable to owners of the Company | | | | | | | | | | | |
|--|---------------------------------------|--------------------------|----------------------------|--------------------------------|---------------------------|------------------------------------|--|--------------------------------------|------------------------------|----------------------|--------------------------------------|------------------|
| | Share capital RMB'000 | Share premium RMB'000 | Capital reserve RMB'000 | Revaluation reserve RMB'000 | FVTOCI reserve RMB'000 | Other reserve RMB'000 (note) | Share-based payment reserve RMB'000 | Statutory surplus reserve RMB'000 | Retained earnings RMB'000 | Sub-total RMB'000 | Non-controlling interests RMB'000 | Total RMB'000 |
| As at January 1, 2020 (Audited) | 3,520 | 8,027 | 133,379 | 194,970 | 5,305 | 194,725 | 35,740 | 1,314,953 | 10,654,410 | 12,545,029 | 6,083,501 | 18,628,530 |
| Profit and total comprehensive income for the period | - | - | - | - | - | - | - | - | 71,306 | 71,306 | 209,717 | 281,023 |
| Dividend declared to shareholders of the Company (note 10) | - | - | - | - | - | - | - | - | (150,000) | (150,000) | - | (150,000) |
| Dividend declared to non-controlling interests | - | - | - | - | - | - | - | - | - | - | (27,027) | (27,027) |
| As at June 30, 2020 (Unaudited) | 3,520 | 8,027 | 133,379 | 194,970 | 5,305 | 194,725 | 35,740 | 1,314,953 | 10,575,716 | 12,466,335 | 6,266,191 | 18,732,526 |
| As at January 1, 2019 (Audited) | 3,520 | 8,027 | 133,379 | 194,970 | 37,616 | 194,725 | 38,898 | 1,219,374 | 10,072,099 | 11,902,608 | 5,928,219 | 17,830,827 |
| Profit for the period | - | - | - | - | - | - | - | - | 428,576 | 428,576 | 141,271 | 569,847 |
| Other comprehensive income for the period | - | - | - | - | 2,657 | - | - | - | - | 2,657 | 263 | 2,920 |
| Total comprehensive income for the period | - | - | - | - | 2,657 | - | - | - | 428,576 | 431,233 | 141,534 | 572,767 |
| Dividend declared to shareholders of the Company (note 10) | - | - | - | - | - | - | - | - | (220,000) | (220,000) | - | (220,000) |
| Lapsed of share options | - | - | - | - | - | - | (3,158) | - | 3,158 | - | - | - |
| As at June 30, 2019 (Unaudited) | 3,520 | 8,027 | 133,379 | 194,970 | 40,273 | 194,725 | 35,740 | 1,219,374 | 10,283,833 | 12,113,841 | 6,069,753 | 18,183,594 |

Note:

Other reserve mainly represents the differences between the amount by which non-controlling interests are adjusted and the fair value of consideration paid or received when the Group (as defined in note 1) acquired or disposed of partial interests in existing subsidiaries and deemed capital contributions from non-controlling interests and a related party.

Condensed Consolidated Statement of Cash Flows

For the six months ended June 30, 2020

| | Six months ended June 30, | |
|---|--------------------------------|--------------------------------|
| | 2020 RMB'000 (Unaudited) | 2019 RMB'000 (Unaudited) |
| NET CASH FROM OPERATING ACTIVITIES | 2,427,917 | 2,438,321 |
| INVESTING ACTIVITIES | | |
| Placement of restricted bank deposits | (148,221) | (511,219) |
| Withdrawal of restricted bank deposits | 128,767 | 443,826 |
| Purchase of property, plant and equipment and intangible assets | (98,246) | (85,289) |
| Proceeds from disposal of property, plant and equipment | 88 | 1,534 |
| Prepaid for acquisition of a subsidiary | (41,150) | – |
| Deposits received from disposal of a subsidiary | 100,000 | – |
| Interest received | 29,766 | 83,437 |
| Payments for construction of investment properties | (134,003) | (119,552) |
| Repayments from related parties | 1,528,771 | 2,702,953 |
| Advances to related parties | (2,342,156) | (3,325,350) |
| Investment in a joint venture | – | (25,500) |
| NET CASH USED IN INVESTING ACTIVITIES | (976,384) | (835,160) |

Condensed Consolidated Statement of Cash Flows

For the six months ended June 30, 2020

| | Six months ended June 30, | |
|--|--------------------------------|--------------------------------|
| | 2020 RMB'000 (Unaudited) | 2019 RMB'000 (Unaudited) |
| FINANCING ACTIVITIES | | |
| New bank loans raised | 6,037,100 | 8,265,924 |
| New trust loans raised | 500,000 | 1,821 |
| New borrowings from financial institutions loans raised | 1,800,500 | 1,640,793 |
| Repayments of bank loans | (2,358,201) | (5,701,662) |
| Repayments of trust loans | (4,600,000) | (1,216,260) |
| Repayments of borrowings from financial loans institutions | (245,411) | (1,525,603) |
| Repayment of senior notes | (851,347) | (3,477,605) |
| Repayment of corporate bonds | – | (320) |
| Proceeds on issue of senior notes | – | 3,725,472 |
| Transaction costs paid for issuance of senior notes | – | (169,595) |
| Payments for acquisition of partial interest in a subsidiary | – | (12,000) |
| Payments of financing deposits | (6,904) | (9,969) |
| Withdrawal of financing deposits | 256,884 | 787,700 |
| Repayments of leases liabilities | (903) | (277) |
| Dividends paid to shareholders of the Company | – | (444,698) |
| Dividends paid to non-controlling interests of subsidiaries | – | (55,940) |
| Interest paid | (1,111,790) | (1,299,135) |
| Repayments to related parties | (3,166,358) | (2,946,576) |
| Advances from related parties | 3,614,363 | 2,131,592 |
| NET CASH USED IN FINANCING ACTIVITIES | (132,067) | (306,338) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 1,319,466 | 1,296,823 |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD | 536,926 | 1,030,143 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD, REPRESENTED BY BANK BALANCES AND CASH | 1,856,392 | 2,326,966 |

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

1. GENERAL INFORMATION OF THE GROUP

Guorui Properties Limited (“**the Company**”) was incorporated under the name of “Glory Land Company Limited (國瑞置業有限公司)” in the Cayman Islands and carrying on business in Hong Kong as “Guorui Properties Limited” as an exempted company with limited liability under the Company Laws (2012 Revision) of the Cayman Islands on July 16, 2012. Its parent and ultimate holding company is Alltogether Land Company Limited (通和置業有限公司) (“**Alltogether Land**”), a company incorporated in the British Virgin Islands. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and its principal place of business is located at East Block, Hademen Plaza, 8-1#Chongwenmenwai Street, Dongcheng District, Beijing, the PRC.

The Company’s shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (“**Stock Exchange**”).

The Company and its subsidiaries (collectively referred to the “**Group**”) are principally engaged in the business of property development, provision of primary land construction and development services, property investment, and provision of property management and related services.

The condensed consolidated financial statements are presented in Renminbi (“**RMB**”), which is also the functional currency of the Company.

The outbreak of Covid-19 and the subsequent quarantine measures as well as the travel restrictions imposed by many countries have had negative impacts to the global economy, business environment and directly and indirectly affect the operations of the Group. The Group’s proceeds received from properties pre-sale had been affected.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard (“**IAS**”) 34 *Interim Financial Reporting* issued by the International Accounting Standards Board (“**IASB**”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (“**Listing Rules**”).

The condensed consolidated financial statements have been prepared on the historical cost basis, except for investment properties and certain financial instruments which are measured at fair values, as appropriate.

Other than additional accounting policies resulting from application of amendments to International Financial Reporting Standards (“**IFRSs**”) and application of certain accounting policies which became relevant to the Group, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended June 30, 2020 are the same as those presented in the Group’s annual financial statements for the year ended December 31, 2019.

Application of new and amendments to IFRSs

In the current interim period, the Group has applied the Amendments to References to the Conceptual Framework in IFRS Standards and the following amendments to IFRSs issued by the IASB, for the first time, which are mandatory effective for the annual period beginning on or after January 1, 2020 for the preparation of the Group’s condensed consolidated financial statements:

| | |
|--|--------------------------------|
| Amendments to IFRS 3 | Definition of a Business |
| Amendments to IAS 1 and IAS 8 | Definition of Material |
| Amendments to IFRS 9, IAS 39 and IFRS 7 | Interest Rate Benchmark Reform |

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued) Application of new and amendments to IFRSs (Continued)

In addition, the Group has early applied the Amendments to IFRS 16 “Covid-19-Related Rent Concessions”.

The application of the Amendments to References to the Conceptual Framework in IFRS Standards and the amendments to IFRSs in the current period has had no material impact on the Group’s financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

Accounting policies newly applied by the Group

In addition, the Group has applied the following accounting policies which became relevant to the Group in the current interim period.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in the relevant subsidiary after the sale.

3. REVENUE

Disaggregation of revenue from contracts with customers and the reconciliation of the revenue from contracts with customers with the amounts disclosed in the segment information

| | For the six months ended June 30, 2020 | | | | |
|---------------------------------------|--|--|---|--|---------------------------------|
| | Property development RMB'000 (Unaudited) | Primary land construction and development services RMB'000 (Unaudited) | Property investment RMB'000 (Unaudited) | Property management and related services RMB'000 (Unaudited) | Total RMB'000 (Unaudited) |
| Timing of revenue recognition | | | | | |
| A point in time | 2,915,435 | - | - | - | 2,915,435 |
| Over time | - | 116,418 | - | 11,695 | 128,113 |
| Revenue from contracts with customers | 2,915,435 | 116,418 | - | 11,695 | 3,043,548 |
| Leases | - | - | 278,817 | - | 278,817 |
| Total revenue | 2,915,435 | 116,418 | 278,817 | 11,695 | 3,322,365 |

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

3. REVENUE (Continued)

Disaggregation of revenue from contracts with customers and the reconciliation of the revenue from contracts with customers with the amounts disclosed in the segment information (Continued)

| | For the six months ended June 30, 2019 | | | | |
|---------------------------------------|--|--|---|--|---------------------------------|
| | Property development RMB'000 (Unaudited) | Primary land construction and development services RMB'000 (Unaudited) | Property investment RMB'000 (Unaudited) | Property management and related services RMB'000 (Unaudited) | Total RMB'000 (Unaudited) |
| Timing of revenue recognition | | | | | |
| A point in time | 3,411,722 | – | – | – | 3,411,722 |
| Over time | – | 66,477 | – | 11,593 | 78,070 |
| Revenue from contracts with customers | 3,411,722 | 66,477 | – | 11,593 | 3,489,792 |
| Leases | – | – | 285,120 | – | 285,120 |
| Total revenue | 3,411,722 | 66,477 | 285,120 | 11,593 | 3,774,912 |

4. SEGMENT INFORMATION

The Group is organized into business units based on their types of activities. These business units are the basis of information that is prepared and reported to the Group's chief operating decision maker (i.e. the executive directors of the Company) for the purposes of resource allocation and assessment of performance. The Group's operating segments under IFRS 8 *Operating Segments* are identified as the following four business units:

Property development: This segment develops and sells commercial and residential properties.

Primary land construction and development services: This segment derives revenue from primary land development, including services for resettlement, construction of land infrastructure and ancillary public facilities on land owned by the local governments.

Property investment: This segment derives rental income from investment properties.

Property management and related services: This segment derives income from property management and related services.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

4. SEGMENT INFORMATION (Continued)

Segment revenue and results

The following is the analysis of the Group's revenue and results by reportable and operating segment.

| | Property development <i>RMB'000</i> (Unaudited) | Primary land construction and development services <i>RMB'000</i> (Unaudited) | Property investment <i>RMB'000</i> (Unaudited) | Property management and related services <i>RMB'000</i> (Unaudited) | Total <i>RMB'000</i> (Unaudited) |
|---|---|---|--|---|--|
| Six months ended June 30, 2020 | | | | | |
| Revenue from external customers and segment revenue | 2,915,435 | 116,418 | 278,817 | 11,695 | 3,322,365 |
| Segment profit | 358,419 | 2,218 | 168,294 | 3,243 | 532,174 |
| Six months ended June 30, 2019 | | | | | |
| Revenue from external customers and segment revenue | 3,411,722 | 66,477 | 285,120 | 11,593 | 3,774,912 |
| Segment profit | 459,450 | 1,267 | 204,143 | 6,951 | 671,811 |

The segment profits can be reconciled to the profit before taxation as follows:

| | Six months ended June 30, | |
|---|---------------------------------------|---------------------------------------|
| | 2020 <i>RMB'000</i> (Unaudited) | 2019 <i>RMB'000</i> (Unaudited) |
| Segment profit | 532,174 | 671,811 |
| Other gains and losses | (43,687) | (17,993) |
| Other income | 111,855 | 76,110 |
| Change in fair value of investment properties | 238,363 | 531,751 |
| Unallocated administrative expenses | (38,183) | (29,881) |
| Other expenses | (5,666) | (21,977) |
| Share of losses of associates | (1,247) | (5,364) |
| Share of losses of joint ventures | (8,088) | (5,992) |
| Finance costs | (220,466) | (201,971) |
| Profit before tax | 565,055 | 996,494 |

The accounting policies applied in determining segment revenue and segment results of the operating segments are the same as the Group's accounting policies. Segment profit represents the profit earned by each segment without allocation of other gains and losses, other income, change in fair value of investment properties, other expenses, share of losses of joint ventures, share of losses of associates, finance costs and unallocated administrative expenses, including auditor's remuneration and directors' emoluments etc.. This is the measure reported to the Group's chief operating decision maker for the purpose of resources allocation and performance assessment.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

4. SEGMENT INFORMATION (Continued)

Other segment information

Amounts included in the measurement of segment profit:

| | Property development RMB'000 (Unaudited) | Primary land construction and development service RMB'000 (Unaudited) | Property investment RMB'000 (Unaudited) | Property management and related services RMB'000 (Unaudited) | Unallocated amount RMB'000 (Unaudited) | Total RMB'000 (Unaudited) |
|--|--|---|---|--|--|---------------------------------|
| Six months ended June 30, 2020 | | | | | | |
| Depreciation and amortization | (11,012) | - | (2,086) | (5,404) | (19,930) | (38,432) |
| Depreciation of right-of-use assets | (701) | - | (24) | (13) | (2,964) | (3,702) |
| Impairment losses under expected credit loss model | (5,178) | - | - | - | - | (5,178) |
| Six months ended June 30, 2019 | | | | | | |
| Depreciation and amortization | (11,952) | - | (2,276) | (4,329) | (19,926) | (38,483) |
| Depreciation of right-of-use assets | (130) | - | (41) | (13) | (2,964) | (3,148) |

No segment assets and liabilities are presented as they were not regularly provided to the chief operating decision maker for the purpose of resources allocation and performance assessment.

Geographical information

All the revenue and operating results of the Group is derived from the PRC based on location of the operations. All the Group's non-current assets (excluding financial instruments and deferred tax assets) are located in the PRC based on geographical location of the assets or the associates' and joint venture's operation, as appropriate.

Revenue from major customers

No revenue from transactions with a single external customer amounted to 10% or more of the Group's revenue during the six months ended June 30, 2020 and 2019.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

5. OTHER GAINS AND LOSSES

| | Six months ended June 30, | |
|--|--------------------------------|--------------------------------|
| | 2020 RMB'000 (Unaudited) | 2019 RMB'000 (Unaudited) |
| Net foreign exchange losses | (32,164) | (17,382) |
| Losses on disposal of entrusted financial products | (170) | – |
| Losses on disposal of property, plant and equipment | (51) | (611) |
| Impairment loss of properties under development for sale | (11,302) | – |
| | (43,687) | (17,993) |

6. FINANCE COSTS

| | Six months ended June 30, | |
|---|--------------------------------|--------------------------------|
| | 2020 RMB'000 (Unaudited) | 2019 RMB'000 (Unaudited) |
| Interest on bank borrowings | 757,920 | 799,742 |
| Interest on trust borrowings | 82,113 | 125,234 |
| Interest on loans from financial institutions | 78,146 | 70,424 |
| Interest on corporate bonds | 22,936 | 22,158 |
| Interest on senior notes | 393,161 | 278,640 |
| Interest on significant financing component of contract liabilities | 595,424 | 279,412 |
| Interest on lease liabilities | 170 | 41 |
| Total | 1,929,870 | 1,575,651 |
| Less: Amounts capitalized in the cost of qualifying assets | (1,709,404) | (1,373,680) |
| | 220,466 | 201,971 |

Interests capitalized arose from borrowings made specifically for the purpose of construction of the qualifying assets, which bore annual interest at rates from 4.75% to 13.65% (six months ended June 30, 2019: 4.75% to 10.80%) and general borrowings pool calculated by applying a capitalization rate of 10.83% (six months ended June 30, 2019: 9.61%) per annum.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

7. INCOME TAX EXPENSE

| | Six months ended June 30, | |
|--------------------------------|--------------------------------|--------------------------------|
| | 2020 RMB'000 (Unaudited) | 2019 RMB'000 (Unaudited) |
| Current tax | | |
| PRC Enterprise Income Tax | 276,084 | 235,358 |
| Under provision in prior years | 81 | 608 |
| Land appreciation tax ("LAT") | 194,365 | 164,067 |
| | 470,530 | 400,033 |
| Deferred tax | (186,498) | 26,614 |
| Income tax expense | 284,032 | 426,647 |

PRC Enterprise Income Tax has been calculated on the estimated assessable profit derived from the PRC at the rate of 25% for both periods.

The provision of LAT is estimated according to the requirements set forth in the relevant PRC tax laws and regulations. LAT has been provided at ranges of progressive rates of the appreciation value, with certain allowable exemptions and deductions.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

8. PROFIT FOR THE PERIOD

Profit for the period has been arrived at after charging (crediting) the following items:

| | Six months ended June 30, | |
|---|--------------------------------|--------------------------------|
| | 2020 RMB'000 (Unaudited) | 2019 RMB'000 (Unaudited) |
| Directors' remunerations | | |
| – Salaries and other benefits | 7,187 | 7,396 |
| – Retirement benefit contributions | 25 | 103 |
| Other staff costs | | |
| – Salaries and other benefits | 162,416 | 153,480 |
| – Retirement benefit contributions | 3,013 | 12,963 |
| Total staff costs | 172,641 | 173,942 |
| Less: Amounts capitalized to properties under development | (84,083) | (69,576) |
| | 88,558 | 104,366 |
| Cost of properties sold recognized as expense | 2,310,409 | 2,607,140 |
| Interest income | (67,099) | (71,435) |
| Depreciation of property, plant and equipment | 36,944 | 37,416 |
| Depreciation of right-of-use assets | 3,702 | 3,148 |
| Amortization of intangible assets (included under other non-current assets) | 1,488 | 1,067 |
| Rental income from investment properties | (278,817) | (285,120) |
| Less: Direct operating expenses | 110,523 | 80,977 |
| | (168,294) | (204,143) |

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

9. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

| | Six months ended June 30, | |
|--|--------------------------------|--------------------------------|
| | 2020 RMB'000 (Unaudited) | 2019 RMB'000 (Unaudited) |
| Earnings | | |
| Earnings for the purposes of basic and diluted earnings per share (profit for the period attributable to owners of the Company) | 71,306 | 428,576 |

| | Six months ended June 30, | |
|--|---------------------------|--------------|
| | 2020 '000 | 2019 '000 |
| Number of shares | | |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | 4,444,418 | 4,444,418 |
| Effect of dilutive potential ordinary shares: | | |
| Share options | – | 6,556 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | 4,444,418 | 4,450,974 |

10. DIVIDENDS

| | Six months ended June 30, | |
|--|--------------------------------|--------------------------------|
| | 2020 RMB'000 (Unaudited) | 2019 RMB'000 (Unaudited) |
| Dividends for ordinary shareholders of the Company recognized as distribution during the reporting period: | | |
| 2019 Final – HK3.76 cents (2019: 2018 Final dividend HK5.64 cents) per share | 150,000 | 220,000 |

During the current interim period, a final dividend of HK3.76 cents per share in respect of the year ended December 31, 2019 (2019: HK5.64 cents per share in respect of the year ended December 31, 2018) was declared to owners of the Company. No dividends were paid during the current interim period. The aggregate amount of the final dividend paid in the 2019 interim period was amounted to HK\$132,914,000. The Directors do not recommend the payment of an interim dividend for the six months ended June 30, 2020 (June 30, 2019: Nil).

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

11. INVESTMENT PROPERTIES

| | Completed investment properties <i>RMB'000</i> | Investment properties under development <i>RMB'000</i> | Total <i>RMB'000</i> |
|---|---|---|-------------------------|
| Fair value | | | |
| As at January 1, 2019 (Audited) | 16,623,072 | 2,922,000 | 19,545,072 |
| Additions | – | 403,306 | 403,306 |
| Transfer from properties held for sale | 140,256 | – | 140,256 |
| Net increase in fair value recognized in profit or loss | 792,672 | 268,694 | 1,061,366 |
| As at December 31, 2019 (Audited) | 17,556,000 | 3,594,000 | 21,150,000 |
| Additions | – | 179,474 | 179,474 |
| Transfer from properties held for sale | 19,163 | – | 19,163 |
| Reclassified as asset held for sale | (591,000) | – | (591,000) |
| Net increase in fair value recognized in profit or loss | 31,837 | 206,526 | 238,363 |
| As at June 30, 2020 (Unaudited) | 17,016,000 | 3,980,000 | 20,996,000 |

The investment properties are all situated in the PRC. The fair value of the Group's investment properties, including the Group's property interests held under operating leases classified and accounted for as investment properties, as at June 30, 2020 and December 31, 2019 have been arrived at on the basis of valuations carried out on those dates by Colliers International (Hong Kong) Ltd ("**Colliers**"), a firm of independent qualified professional valuers not connected with the Group, who have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations.

The valuations of completed investment properties are arrived at with adoption of direct comparison approach assuming sale of each of these properties in its existing state by making reference to comparable sales transactions as available in the relevant market and also consider income approach by undertaking an estimation of future cash flows and taking into account the time value of money. The income is projected over the investment cycle and the net income is calculated after the deduction of capital, operating, and other necessary expenses.

Fair values of the investment properties under development are generally derived using the residual method. This valuation method is essentially a means of valuing the land and building by reference to its development potential by deducting development costs together with developer's profit and risk from the estimated capital value of the proposed development assuming completed in accordance with the existing development plans as at the date of valuation, which duly reflected the risks associated with the development.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

The fair value of the Group's investment properties at June 30, 2020 and December 31, 2019 are grouped into Level 3 of fair value measurement. There were no transfers into or out of Level 3 during the periods presented.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

12. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

During the six months ended June 30, 2020, additions to property, plant and equipment amounted to RMB171,836,000 (six months ended June 30, 2019: RMB138,087,000), consisted of construction in progress, motor vehicles and electronic equipment and furniture.

During the current interim period, there is no new lease agreement was entered.

13. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

| | As at June 30, 2020 RMB'000 (Unaudited) | As at December 31, 2019 RMB'000 (Audited) |
|---|---|---|
| Unlisted investments: – Equity securities (Note) | 32,400 | 32,400 |

Note: The above unlisted equity securities represent the Group's equity interest in private entities: (1) 0.15% (2019: 0.15%) equity interest in Bohai Life Ltd. 渤海人壽保險股份有限公司 (“**Bohai Life Limited**”), a private entity established in the PRC which is principally engaged in insurance business, with a carrying amount of RMB27,400,000, and (2) 10% (2019: 10%) equity interest in Yongqing Jiyin Rural Bank Co., Ltd. 永清吉銀村鎮銀行股份有限公司 (“**Yongqing Jiyin Rural Bank**”), a private entity established in the PRC which is principally engaged in banking operation, with a carrying amount of RMB5,000,000.

The Group's investment in unlisted investments were measured at fair value, are grouped into Level 3 of fair value measurement.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

14. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

Trade receivables mainly comprise of rental receivables and receivables for sales of properties.

Pursuant to the lease agreements, rental payment is generally required to be settled in advance with no credit period being granted to the tenants. In respect of sale of properties, a credit period of six to twelve months may be granted to specific customers on a case-by-case basis.

| | As at June 30, 2020 RMB'000 (Unaudited) | As at December 31, 2019 RMB'000 (Audited) |
|--|---|---|
| Trade receivables | | |
| – Contracts with customers | 417,651 | 532,502 |
| – Lease receivables | 242,466 | 128,176 |
| | 660,117 | 660,678 |
| Less: Allowance for credit losses | (5,503) | (5,503) |
| Trade receivables | 654,614 | 655,175 |
| Advances to contractors and suppliers | 591,559 | 868,418 |
| Other receivables from independent third parties | 17,261 | 17,261 |
| Other receivables and prepayment (Note) | 894,929 | 1,028,696 |
| Deposits | 310,425 | 247,108 |
| | 1,814,174 | 2,161,483 |
| Less: Allowance for credit losses | (10,115) | (4,937) |
| Other receivables | 1,804,059 | 2,156,546 |
| Total trade and other receivables | 2,458,673 | 2,811,721 |

Note: Included in other receivables and prepayment was a balance of RMB240,000,000 (December 31, 2019: RMB151,000,000) which bearing interest at 10% and secured by the land use rights of the third party. Except for the balance of RMB240,000,000, other receivables and prepayment are non-trade nature, unsecured, interest-free and repayable on demand.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

14. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (Continued)

The following is an analysis of trade receivables by age, presented based on the date of recognition of revenue:

| | As at June 30, 2020 RMB'000 (Unaudited) | As at December 31, 2019 RMB'000 (Audited) |
|-----------------|--|--|
| 0 to 60 days | 137,346 | 164,361 |
| 61 to 180 days | 59,798 | 23,197 |
| 181 to 365 days | 81,742 | 222,847 |
| 1 to 2 years | 336,053 | 208,914 |
| Over 2 years | 45,178 | 41,359 |
| | 660,117 | 660,678 |

Trade receivables with an amount of approximately RMB454,673,000 and RMB255,135,000 as at June 30, 2020 and December 31, 2019, respectively, are past due but not impaired. The Group does not hold any collateral over these balances except for the rental deposits.

15. CONTRACT ASSETS

| | At June 30, 2020 RMB'000 (Unaudited) | At December 31, 2019 RMB'000 (Audited) |
|---------------------------------------|---|---|
| Construction and development services | 1,509,493 | 1,389,582 |
| Property sales | 41,510 | 52,552 |
| | 1,551,003 | 1,442,134 |

The contract assets primarily relate to the Group's right to consideration for work completed and not billed because the rights are conditional on the Group's future performance. The contract assets are transferred to trade receivables when the rights become unconditional.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

16. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE

In May 2020, Shantou Garden Group Co., Ltd. 汕頭花園集團有限公司 (“**Garden Group**”), an indirectly wholly-owned subsidiary of the Company, entered into an agreement (“**Share Transfer Agreement**”) with Shantou Xiayi Business Management Co., Ltd. 汕頭市廈浣商業管理有限公司 (“**Purchaser**”), an independent company. Pursuant to which, Garden Group disposed its entire equity interest in Shantou Glory Construction Materials and Household Exhibition Center Co., Ltd. 汕頭國瑞建材家居博覽中心有限公司 (“**Target Company**”) to the Purchaser for a consideration of RMB279,872,000. Upon completion of the transaction, the Target Company will cease to be a subsidiary of the Company. As at June 30, 2020, the Group received part of the consideration as deposit amounting to approximately RMB100,000,000. The transaction was expected to be completed in September, 2020.

The consideration is expected to exceed the net carrying amount of the relevant assets and liabilities and, accordingly, no impairment loss was recognized.

Major classes of assets and liabilities of the Target Company at the end of the current interim period are as follows:

| | As at June 30, 2020 RMB'000 (Unaudited) |
|---|---|
| Investment properties | 591,000 |
| Property, plant and equipment | 35,375 |
| Right-of-use assets | 1,917 |
| Trade and other receivables, deposits and prepayments | 2,352 |
| Bank balances and cash | 716 |
| Assets classified as held for sale | 631,360 |
| Bank and trust borrowings | (250,320) |
| Trade and other payables | (76,793) |
| Amounts due to related parties | (27,027) |
| Deferred tax liabilities | (128,040) |
| Total liabilities associated with assets classified as held for sale | (482,180) |

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

17. TRADE AND OTHER PAYABLES

| | As at June 30, 2020 RMB'000 (Unaudited) | As at December 31, 2019 RMB'000 (Audited) |
|---|---|---|
| Trade payables | 4,332,633 | 4,747,785 |
| Deposits received | 288,366 | 316,334 |
| Rental received in advance | 80,794 | 78,184 |
| Accrued payroll | 27,785 | 35,067 |
| Business and other tax payable | 451,234 | 351,073 |
| Other payables and accruals | 454,880 | 203,020 |
| Advance received for local resettlement | 661,474 | 661,474 |
| Accrued penalty | 6,368 | 28,968 |
| Dividends | 175,449 | 139,500 |
| | 6,478,983 | 6,561,405 |
| Analyzed for reporting purposes as: | | |
| Non-current (Note) | 118,062 | 122,063 |
| Current | 6,360,921 | 6,439,342 |
| | 6,478,983 | 6,561,405 |

Note: Pursuant to the relevant rental agreements, rental deposits of approximately RMB118,062,000 as at June 30, 2020 (December 31, 2019: RMB122,063,000) will be refundable after twelve months from the end of the reporting period and is therefore classified as non-current liability.

Trade payables comprise of construction costs payable and other project-related expenses payable. The average credit period of trade payable is approximately 180 days.

The following is an analysis of trade payables by age, presented based on the billing date:

| | As at June 30, 2020 RMB'000 (Unaudited) | As at December 31, 2019 RMB'000 (Audited) |
|--------------|---|---|
| 0 to 60 days | 1,947,132 | 2,245,265 |
| 61-365 days | 1,085,673 | 1,090,171 |
| 1-2 years | 513,776 | 560,797 |
| Over 2 years | 786,052 | 851,552 |
| | 4,332,633 | 4,747,785 |

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

18. BANK AND TRUST BORROWINGS

| | As at June 30, 2020 RMB'000 (Unaudited) | As at December 31, 2019 RMB'000 (Audited) |
|--|---|---|
| Bank borrowings, secured | 19,129,064 | 15,738,489 |
| Trust borrowings, secured | 460,665 | 4,400,160 |
| Loans from financial institutions, secured | 3,484,695 | 1,927,955 |
| | 23,074,424 | 22,066,604 |
| Less: Amount due within one year shown under current liabilities | (6,048,341) | (6,317,710) |
| Amount due after one year | 17,026,083 | 15,748,894 |

As at June 30, 2020, the borrowings with carrying amount of RMB8,893,595,000 (December 31, 2019: RMB9,594,057,000) carry interest at variable rates quoted by the People's Bank of China, the effective interest rate ranges from 4.75% to 10.00% (December 31, 2019: 4.75% to 10.00%) per annum. The remaining borrowings are arranged at fixed rates, ranging from 4.75% to 13.65% (December 31, 2019: 4.75% to 13.00%) per annum as at June 30, 2020.

19. CORPORATE BONDS

(a) Corporate bonds issued in 2015 ("2015 Corporate Bonds")

On November 11, 2015, Garden Group has issued its first tranche of domestic corporate bonds to the public in the PRC ("**First Tranche Issue**") with a principal amount of RMB2,000,000,000, bearing interest at the coupon rate of 7.25% per annum, payable annually, and has a term of 5 years. On December 22, 2015, Garden Group has issued the second tranche of domestic corporate bonds to the public in the PRC ("**Second Tranche Issue**") with a principal amount of RMB1,000,000,000, bearing interest at the coupon rate of 7.47% per annum, payable annually, and has a term of 5 years.

According to the terms and conditions of the 2015 Corporate Bonds, Garden Group has the right to adjust the coupon rate for the fourth and fifth year at the end of the third year, by giving a 30-day notice to the bondholder before November 10 and December 21, 2018 respectively. At the same time, the bondholder may at its option require Garden Group to redeem the bond at a redemption price equal to 100% of the principal plus accrued interest to such redemption date. The remaining bond will be subject to the adjusted interest rate until the maturity date. The effective interest rate of the First Tranche Issue and Second Tranche Issue is approximately 7.61% and 7.64% per annum after the adjustment for transaction costs.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

19. CORPORATE BONDS (Continued)

(a) Corporate bonds issued in 2015 (“2015 Corporate Bonds”) (Continued)

In 2018, principal amount of First Tranche Issue and Second Tranche Issue amounting to RMB1,945,650,000 and RMB999,680,000 respectively were redeemed by the bondholders. The maturity dates of the remaining 2015 Corporate Bonds is November 10 and December 21, 2020 respectively.

On June 28, 2019, the remaining Second Tranche Issue amounting to RMB320,000 was redeemed by the Garden Group.

The carrying amount of 2015 Corporate Bonds are amounting to approximately RMB56,848,000 (December 31, 2019: RMB54,901,000) as at June 30, 2020.

(b) Corporate bonds issued in 2016 (“2016 Corporate Bonds”)

On September 22, 2016, Garden Group has issued its first tranche of domestic corporate bonds through non-public offering in the PRC (“**First Tranche Non-public Issue**”) with a principal amount of RMB1,000,000,000, bearing interest at the coupon rate of 5.3% per annum, payable annually, and has a term of 5 years. The 2016 Corporate Bonds are secured by certain investment properties of the Group.

According to the terms and conditions of the 2016 Corporate Bonds, Garden Group has the right to adjust the coupon rate for the fourth and fifth year at the end of the third year, by giving a 30-day notice to the bondholder before September 21, 2019. At the same time, the bondholder may at its option require Garden Group to redeem the bond at a redemption price equal to 100% of the principal plus accrued interest to such redemption date. The remaining bond will be subject to the adjusted interest rate until the maturity date. The effective interest rate of the 2016 Corporate Bonds is approximately 5.47% per annum after the adjustment for transaction costs.

In 2019, Garden Group has adjusted the coupon rate from 5.30% to 8.50% for the fourth and fifth year at the end of the third year. The 2016 Corporate Bonds with principal amounting to RMB500,000,000 was redeemed by Garden Group and sold to Shantou Glory Management Co., Ltd. 汕頭企業管理有限公司 (“**Shantou Glory**”), a wholly owned subsidiary of the Company. The maturity date of the remaining 2016 Corporate Bond is September 22, 2021.

The carrying amounts of 2016 Corporate Bonds are amounting to approximately RMB531,875,000 (December 31, 2019: RMB510,886,000) as at June 30, 2020.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

19. CORPORATE BONDS (Continued)

(b) Corporate bonds issued in 2016 (“2016 Corporate Bonds”) (Continued)

For the purpose of presentation in the condensed consolidated statement of financial position, the 2016 Corporate Bonds held by Shantou Glory have been offset. The following is the analysis of the 2016 Corporate Bonds in issues as at the end of the reporting period:

| | As at June 30, 2020 RMB'000 (Unaudited) | As at December 31, 2019 RMB'000 (Audited) |
|--|---|---|
| Carrying amounts | 1,063,779 | 1,021,598 |
| Less: Amount held by Shantou Glory | (531,904) | (510,712) |
| | 531,875 | 510,886 |
| Less: Amount due within one year shown under current liabilities | (31,875) | (10,886) |
| Amount due after one year | 500,000 | 500,000 |

20. SENIOR NOTES

| | As at June 30, 2020 RMB'000 (Unaudited) | As at December 31, 2019 RMB'000 (Audited) |
|--|---|---|
| 2017 Senior Notes (Note (a)) | – | 214,657 |
| 2018 Second Tranche Senior Notes (Note (b)) | – | 699,244 |
| 2019 Senior Notes (Note (c)) | 3,266,004 | 3,207,466 |
| 2019 Private Placement Notes (Note (d)) | 704,902 | 689,927 |
| | 3,970,906 | 4,811,294 |
| Less: Amount due within one year shown under current liabilities | (1,139,760) | (1,734,974) |
| Amount due after one year | 2,831,146 | 3,076,320 |

Notes:

(a) 2017 Senior Notes

On March 21, 2017, the Company issued senior notes with an aggregate nominal value of United States dollars (“US\$”) 300,000,000 (“2017 Senior Notes”) at face value. The 2017 Senior Notes, bearing interest at 7.00% per annum, payable semi-annually from September 21, 2017 matured on March 21, 2020. The effective interest rate is approximately 7.82% per annum after the adjustment for transaction costs. The 2017 Senior Notes were listed on the Stock Exchange.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

20. SENIOR NOTES (Continued)

Notes: (Continued)

(a) 2017 Senior Notes (Continued)

According to the terms and conditions of the 2017 Senior Notes, on March 21, 2019, the Company completed redemption of US\$269,810,000 of the 2017 Senior Notes whose holders exercised their redemption options at a redemption price equal to 100% of principal plus accrued interest to such redemption date and US\$30,190,000 of the aggregate principal amount of the 2017 Senior Notes remain outstanding as at June 30, 2019.

On March 21, 2020, the Company completed the full redemption of the 2017 Senior Notes with cash. The aggregate redemption price is equivalent to the principal amount plus accrued interest to the maturity date.

(b) 2018 Second Tranche Senior Notes

On June 7, 2018, the Company issued senior notes with an aggregate nominal value of US\$100,000,000 ("**2018 Second Tranche Senior Notes**") at face value. 2018 Second Tranche Senior Notes bearing interest at 10.00% per annum payable semi-annually on December 7 and June 7, matured on June 7, 2020. The effective interest rate is approximately 11.03% per annum after the adjustment for transaction costs. 2018 Second Tranche Senior Notes were listed on the Stock Exchange.

According to the terms and conditions of the 2018 Second Tranche Senior Notes, on May 31, 2020, the Company completed the full redemption of the 2018 Second Tranche Senior Notes with cash. The aggregate redemption price is equivalent to the principal amount plus accrued interest to the maturity date.

(c) 2019 Senior Notes

On February 27, 2019, the Company issued senior notes with an aggregate nominal value of US\$160,000,000 ("**2019 Original Notes**") at 97% of the principal amount of the 2019 Original Notes. 2019 Original Notes bearing interest at 13.50% per annum, payable semi-annually in arrears on February 28 and August 28, commencing on August 28, 2019, will mature on February 28, 2022. The effective interest rate is approximately 15.74% per annum after the adjustment for transaction costs. The 2019 Original Notes are listed on the Stock Exchange.

On March 15, 2019, the Company issued senior notes with an aggregate nominal value of US\$295,000,000 ("**2019 Additional Notes**") at 97.0% of the principal amount of the 2019 Additional Notes plus accrued interest from (and including) February 27, 2019 to (but not including) March 15, 2019. The 2019 Additional Notes is to be consolidated and form a single series with the 2019 Original Notes. The principal terms of the 2019 Additional Notes are identical to the terms of the 2019 Original Notes, other than the aggregated principal amount and offer price. The effective interest rate is approximately 15.53% per annum after the adjustment for transaction costs.

The 2019 Original Notes and 2019 Additional Notes (collectively referred to as the "**2019 Senior Notes**") may be redeemed in the following circumstances:

- (1) At any time prior to February 28, 2022, the Company may at its option redeem the 2019 Senior Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the redeemed 2019 Senior Notes plus the applicable premium as of, and accrued but unpaid interest, if any, to (but not including) the redemption date.
- (2) At any time and from time to time prior to February 28, 2022, the Company may redeem up to 35% of the aggregate principal amount of the 2019 Senior Notes with the net cash proceeds of one or more sales of common stock of the Company in an equity offering at a redemption price of 113.5% of the principal amount of the 2019 Senior Notes redeemed, plus accrued and unpaid interest, if any, to (but not including) the redemption date, provided that at least 65% of the aggregate principal amount of the 2019 Senior Notes originally issued on the original issue date remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related equity offering.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

20. SENIOR NOTES (Continued)

Notes: (Continued)

(c) 2019 Senior Notes (Continued)

The Company will give not less than 30 days' nor more than 60 days' notice of any redemption to the Notes holders and the trustee.

The directors of the Company ("**Directors**") consider that the fair value of the above early redemption options was insignificant on June 30, 2020 and December 31, 2019.

The fair value of 2019 Senior Notes as at June 30, 2020 is approximately RMB3,029,996,000 (December 31, 2019: RMB3,020,763,000) based on quoted market price and classified as level 1 of fair value hierarchy.

(d) 2019 Private Placement Notes

On April 9, 2019, the Company issued the notes with an aggregate nominal value of US\$100,000,000 ("**2019 Private Placement Notes**"). 2019 Private Placement Notes bearing interest at 15.00% per annum, is payable quarterly in advance on January 9, April 9, July 9 and October 9 in each year, commencing on April 9, 2019.

2019 Private Placement Notes may be redeemed in the following circumstances:

- (1) Scheduled redemption: Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on January 9, 2021.
- (2) Redemption at the option of holder of 2019 Private Placement Notes ("**Holders**"): The issuer shall, at the option of the Holders of any 2019 Private Placement Notes redeem all but not some of such Holder's 2019 Private Placement Notes on April 9, 2020 at 100% of the principal amount of such 2019 Private Placement Notes.

No holders had exercised their redemption options on April 9, 2020.

The Directors consider that the carrying amounts of 2019 Private Placement Notes recorded at amortized cost in the condensed consolidated financial statements approximate their fair values as at June 30, 2020.

21. PLEDGE OF ASSETS

The following assets were pledged to secure certain borrowings facilities granted to the Group:

| | As at June 30, 2020 RMB'000 (Unaudited) | As at December 31, 2019 RMB'000 (Audited) |
|---------------------------------------|---|---|
| Investment properties | 19,329,400 | 18,606,400 |
| Property, plant and equipment | 752,126 | 784,730 |
| Right-of-use assets | 217,615 | 274,650 |
| Properties under development for sale | 18,399,203 | 16,470,513 |
| Properties held for sale | 730,858 | 748,090 |
| Restricted bank deposits | 27 | 250,006 |
| | 39,429,229 | 37,134,389 |

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

21. PLEDGE OF ASSETS (Continued)

The equity interest of the following companies were pledged to secure certain borrowings facilities granted to the Group:

| | As at June 30, 2020 % (Unaudited) | As at December 31, 2019 % (Audited) |
|---|---|---|
| Foshan Glory Southern Real Estate Development Co., Ltd 佛山市國瑞南方地產開發有限公司 (“ Foshan Glory Southern ”) | 80 | 80 |
| Glory Xingye (Beijing) Investment Co., Ltd 國瑞興業(北京)投資有限公司 (“ Glory Investment ”) | 100 | 100 |
| Beijing Wenhushengda Real Estate Development Co., Ltd 北京文華盛達房地產開發有限公司 (“ Beijing Wenhushengda ”) | 80 | 80 |
| Foshan Guohua Properties Co., Ltd. 佛山市國華置業有限公司 (“ Foshan Guohua ”) | 44 | 44 |
| Shantou Glory Real Estate Development Co., Ltd. 汕頭市國瑞房地產開發有限公司 (“ Shantou Glory ”) | – | 80 |
| Shantou Guorui Hospital Co., Ltd. 汕頭市國瑞醫院有限公司 (“ Guorui Hospital ”) | 100 | 100 |
| Suzhou Glory Real Estate Co., Ltd. 蘇州國瑞地產有限公司 (“ Suzhou Glory ”) | 80 | – |
| Beijing Deheng Real Estate Development Co., Ltd. 北京國瑞德恒房地產開發有限公司 (“ Beijing Deheng ”) | 80 | 80 |
| Shenzhen Glory Technology Investment Co., Ltd. 深圳國瑞科技投資有限公司 (“ Shenzhen Glory Technology ”) (Former name: Shenzhen Wanji Pharmaceutical Co., Ltd 曾用名: 深圳萬基藥業有限公司 (“ Shenzhen Wanji ”)) | 80 | 80 |
| Hainan Junhe Industrial Co., Ltd. 海南駿和實業有限公司 (“ Hainan Junhe ”) | 80 | 80 |
| Glory Xingye (Beijing) Industrial Co., Ltd. 國瑞興業(北京)實業股份有限公司 (“ Glory Industrial ”) | 91 | 91 |
| Guangdong Hongtaiguotong Real Estate Co., Ltd. 廣東宏泰國通地產有限公司 (“ Guangdong Hongtai ”) | 35 | 35 |
| Langfang Guoxing Real Estate Development Co., Ltd 廊坊國興房地產開發有限公司 (“ Langfang Guoxing ”) | 100 | 100 |
| Guangdong Guosha Real Estate Co., Ltd. 廣東國廈地產有限公司 (“ Guangdong Guosha ”) | 51 | 51 |
| Beijing Glory Xingye Real Estate Co., Ltd. 北京國瑞興業地產股份有限公司 (“ Original Beijing Glory ”) | 80 | 80 |
| Guoyang Holdings Co., Ltd. 國洋股份有限公司 (“ Guoyang Holdings ”) | 100 | 100 |
| Guochi Holdings Co., Ltd. 國馳控股有限公司 (“ Guochi Holdings ”) | 100 | 100 |
| Shaanxi Huawei Shida Industrial Co., Ltd 陝西華威世達實業有限公司 (“ Shanxi Hauwei ”) | 80 | 80 |

Except as disclosed above, the Group pledged 100% equity interest in Hainan Glory Investment & Development Co., Ltd. 海南國瑞投資開發有限公司 (“**Hainan Glory Investment**”) to Hai Kou New City Construction & Development Co., Ltd. 海口新城區開發建設有限公司 (“**Hai Kou New City**”) in order to secure the performance obligation as at June 30, 2020 and December 31, 2019. The pledge shall be released within 10 days after the completion of the construction contract.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

22. COMMITMENTS

As at June 30, 2020 and December 31, 2019, the Group had the following commitments:

| | As at June 30, 2020 RMB'000 (Unaudited) | As at December 31, 2019 RMB'000 (Audited) |
|---|---|---|
| Contracted but not provided for | | |
| – Expenditure in respect of investment properties under development | 215,580 | 218,438 |
| – Construction of properties for own use | 1,139,708 | 613,264 |
| – Expenditure in respect of equity investment | 418,230 | 459,380 |
| | 1,773,518 | 1,291,082 |

In addition to the above capital commitments, the Group has contracted expenditure in respect of properties under development for sale of RMB7,963,416,000 as at June 30, 2020 (December 31, 2019: RMB6,843,636,000), which have not been provided for in the condensed consolidated financial statements.

23. CONTINGENT LIABILITIES

| | As at June 30, 2020 RMB'000 (Unaudited) | As at December 31, 2019 RMB'000 (Audited) |
|--|---|---|
| Guarantees provided by the Group in respect of loan facilities utilized by | | |
| – individual property buyers (Note) | 8,747,144 | 8,405,698 |
| – corporate property buyers | 54,050 | 54,640 |
| | 8,801,194 | 8,460,338 |

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

23. CONTINGENT LIABILITIES (Continued)

Note:

The Group has pledged certain restricted bank deposits and provided guarantees to banks in favor of its customers in respect of the mortgage loans provided by the banks to those customers for the purchase of the Group's developed properties and under development properties. These guarantees provided by the Group to the banks will be released upon receiving the building ownership certificate of the respective properties by the banks from the customers as security of the mortgage loans granted.

In the opinion of the Directors, the fair value of the financial guarantee contracts at initial recognition and subsequently at the end of each reporting period is not significant as the default rate is low and a large portion of consideration from property sales contract has been received and recognized as contract liabilities.

Pursuant to the construction contract signed between Hainan Glory Real Estate Development Co., Ltd. 海南國瑞房地產開發有限公司 ("**Hainan Glory**") and Hai Kou New City on July 5, 2009, Hainan Glory pledged its 100% equity interest in Hainan Glory Investment to Hai Kou New City, the details of the pledge are disclosed in note 21.

As at June 30, 2020, Garden Group has provided guarantee to a bank for a banking facility granted to the Beijing Ruida Properties Co., Ltd. 北京銳達置業有限公司 ("**Ruida Zhiye**"), of which the bank borrowing guaranteed by the Group was amounting to RMB747,249,000 (December 31, 2019: RMB799,785,000). Ruida Zhiye had pledged the land use rights to secure such banking facility.

As at June 30, 2020, Handan Guoxia Real Estate Development Co., Ltd. 邯鄲市國夏房地產開發有限公司 ("**Handan Guoxia**") and Shijiazhuang Guoxia Real Estate Development Co. Ltd. 石家莊國廈房地產開發有限公司 ("**Shijiazhuang Guoxia**") have provided guarantee for a bank borrowing granted to the Shijiazhuang Guolong Properties Development Co., Ltd 石家莊國龍房地產開發有限公司 ("**Shijiazhuang Guolong**"), a company controlled by Mr. Zhang Zhangqiao, of which the bank borrowing guaranteed by the Group was amounting to RMB100,000,000 (December 31, 2019: RMB100,000,000). Shijiazhuang Yixing Real Estate Development Co., Ltd (石家莊義興房地產開發有限公司), a company controlled by Mr. Zhangqiao had pledged the land use rights to secure such banking facility.

As at June 30, 2020, Guangdong Hongtai has provided guarantee for a bank borrowing granted to the Foshan Shunde Zanglong Education Management Co., Ltd, a third party, of which the bank borrowing guaranteed by the Group was amounting to RMB9,900,000 (December 31, 2019: RMB9,900,000).

24. LIQUIDITY RISK MANAGEMENT

The Group's objective is to maintain a balance between continuity of funding and the flexibility through the use of borrowings and its available credit facilities. The Directors closely monitor the liquidity position and ensure it has adequate sources of funding to finance the Group's projects and operations.

As there is no assurance that proceeds received from future pre-sales of the Group's current real estate projects will be sufficient to meet the Group's needs, the Group's operating plan requires it to raise additional funds to finance the development and construction of its current real estate projects. If the Group is unable to raise additional equity or debt financing, the Group's operations might need to be curtailed.

24. LIQUIDITY RISK MANAGEMENT (Continued)

The management performed cash flow forecasts for the Group's operations and monitors the forecasts of the Group's liquidity requirements from time to time to ensure the Group has sufficient cash to meet its operational needs and settle liabilities when they fall due. The management takes into account the following considerations in projecting their cash flow forecasts: (a) estimated cash inflows from property sales; (b) further loans under provisional approvals of certain banks; and (c) senior loan notes for issue up to the amount of US\$230 million (equivalent to approximately RMB1,617 million), the endorsement of which from the National Development and Reform Commission (國家發展和改革委員會) (that valid for the period till January 31, 2021) has been obtained. The Directors consider that the Group will be able to maintain sufficient financial resources to meet its operational needs. However, the current economic conditions continue to create uncertainty particularly over the level of demand for the Group's properties for sale and the availability of bank finances for the foreseeable future. Any delay or unavailability of any of the above measure or sources of finance would impact the Group's liquidity position. The management will closely monitor the liquidity position and set out alternative measures which include adjusting the construction progress as appropriate, reducing the Group's spending on land investments, accelerating sales with more flexible pricing and obtaining other external financing through security market.

25. SHARE-BASED PAYMENTS

Share Option Scheme

Pursuant to the pre-IPO share option scheme adopted by the Company on June 5, 2014 ("**Pre-IPO Share Option Scheme**"), the Company granted to 54 grantees options to subscribe for an aggregate of 67,076,800 shares of the Company on June 16, 2014 ("**Pre-IPO Share Option**").

All options under the Pre-IPO Share Option Scheme were granted on June 16, 2014. No additional performance target or condition applies to the outstanding options granted under the Pre-Option Scheme. The exercise price for any option granted under the Pre-IPO Share Option Scheme shall be 60% of the offer price. All share options will be expired after 7 years since the grant date.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

25. SHARE-BASED PAYMENTS (Continued)

Share Option Scheme (Continued)

The vesting periods of the Pre-IPO Share Options are as follows:

33.33%: from the date of grant to July 7, 2015

33.33%: from the date of grant to July 7, 2016

33.34%: from the date of grant to July 7, 2017

The following table discloses movements of the Company's share options held by employees and directors during the period:

| | Outstanding as at January 1, 2020 | Exercised during the the year | Lapsed during the year (Note) | Transferred | Outstanding as at June 30, 2020 |
|---------------------------------------|--|-------------------------------------|--|-------------|--|
| Pre-IPO Share Option | | | | | |
| – Directors | 11,190,000 | – | – | – | 11,190,000 |
| – Other employees | 37,516,137 | – | – | – | 37,516,137 |
| | 48,706,137 | – | – | – | 48,706,137 |
| Exercisable at the end of the period | | | | | 48,706,137 |
| Weighted average exercise price (HKD) | 1.428 | – | – | – | 1.428 |

| | Outstanding as at January 1, 2019 | Exercised during the the year | Lapsed during the year (Note) | Transferred | Outstanding as at June 30, 2019 |
|---------------------------------------|--|-------------------------------------|--|-------------|--|
| Pre-IPO Share Option | | | | | |
| – Directors | 10,500,000 | – | – | 690,000 | 11,190,000 |
| – Other employees | 42,592,804 | – | (4,386,667) | (690,000) | 37,516,137 |
| | 53,092,804 | – | (4,386,667) | – | 48,706,137 |
| Exercisable at the end of the period | | | | | 48,706,137 |
| Weighted average exercise price (HKD) | 1.428 | – | – | – | 1.428 |

Note: Certain share options granted under Pre-IPO Share Option were lapsed during the six months ended June 30, 2019 because of the resignation of the employees.

26. RELATED PARTY BALANCES AND TRANSACTIONS

- (a) The following parties are identified as related parties to the Group and the respective relationships are set out below:

| Name of related party | Relationship |
|---|--|
| Mr. Zhang Zhangsun | Executive Director and controlling shareholder of the Company |
| Ms. Ruan Wenjuan | Executive Director and spouse of Mr. Zhang Zhangsun |
| Ms. Zhang Jin | Executive Director and daughter of Mr. Zhang Zhangsun |
| Mr. Zhang Zhangqiao | Younger brother of Mr. Zhang Zhangsun |
| Beijing Glory Commercial Management Co., Ltd.* ("Glory Commercial Management") 北京國瑞興業商業管理有限公司 | Controlled by Ms. Zhang Jin |
| Jinming Wujin Material Co., Ltd.* ("Jinming Wujin") 汕頭市金明五金材料有限公司 | Controlled by Mr. Zhang Zhangsun |
| Foshan Yinhe Ruixing Commercial Management Co., Ltd.* ("Foshan Yinhe") 佛山市銀和瑞興商業管理有限公司 | Controlled by Ms. Zhang Jin |
| Shenyang Glory Xingda Management Co., Ltd.* ("Shenyang Xingda") 沈陽國瑞興達企業管理有限公司 | Controlled by Ms. Zhang Jin |
| Longhu Huamu Market Co., Ltd.* ("Longhu Huamu") 汕頭市龍湖花木市場有限公司 | Controlled by Ms. Zhang Youxi, sister of Mr. Zhang Zhangsun |
| Beijing Glory Property Services Co., Ltd.* ("Glory Services") 北京國瑞物業服務有限公司 | Controlled by Mr. Zhang Zhangsun |
| Alltogether Land | Parent and ultimate holding company controlled by Mr. Zhang Zhangsun |
| Shenzhen Glory Industrial Development Co., Ltd.* ("Shenzhen Glory Industrial") 深圳國瑞興業發展有限公司 | Controlled by Mr. Zhang Zhangsun |

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

26. RELATED PARTY BALANCES AND TRANSACTIONS (Continued)

- (a) The following parties are identified as related parties to the Group and the respective relationships are set out below: (Continued)

| Name of related party | Relationship |
|---|-----------------------------------|
| Ruida Zhiye | Associate |
| Beijing Maorui Zhiye Co.,Ltd.* ("Maorui Zhiye") 北京茂瑞置業有限公司 | Joint venture |
| Beijing Ruimao Real Estate Co.,Ltd.* ("Ruimao Real Estate") 北京瑞茂房地產開發有限公司 | Joint venture |
| Shantou Chenghai Garden Hotel Co.,Ltd.* ("Shantou Chenghai") 汕頭市澄海花園酒店有限公司 | Controlled by Mr. Zhang Zhangsun |
| Xian Ruihe Xingda Commercial Management Co., Ltd.* ("Xian Ruihe") 西安瑞和興達商業管理有限公司 | Controlled by Ms. Zhang Jin |
| Wuxi Glory Real Estate Development Co., Ltd.* ("Wuxi Glory") 無錫國瑞房地產開發有限公司 | Associate |
| Guangdong Guosha Investment Holding Group Co., Ltd ("Guangdong Guosha Investment") 廣東國廈投資控股集團有限公司 | Controlled by Mr. Zhang Zhangqiao |
| Shijiazhuang Guolong | Controlled by Mr. Zhang Zhangqiao |
| Shenzhen Guokesheng Robot Technology Co., Ltd.* ("Shenzhen Guokesheng Robot") 深圳國科盛機器人科技有限公司 | Controlled by Ms. Zhang Jin |
| Hainan Glory Commercial Management Co.,Ltd.* ("Hainan Glory Commercial Management") 海南國瑞興業商業管理有限公司 | Controlled by Ms. Zhang Jin |

26. RELATED PARTY BALANCES AND TRANSACTIONS (Continued)

- (a) The following parties are identified as related parties to the Group and the respective relationships are set out below: (Continued)

| Name of related party | Relationship |
|---|-----------------------------------|
| Shantou Garden Property Services Co., Ltd.* ("Shantou Garden Services") 汕頭市花園物業管理有限公司 | Controlled by Ms. Zhang Jin |
| Tangshan Guosha Real Estate Development Co., Ltd.* ("Tangshan Guosha Real Estate") 唐山國廈房地產開發有限公司 | Controlled by Mr. Zhang Zhangqiao |
| Tianjin Zhongrui Xingye Real Estate Development Co., Ltd.* ("Tianjin Zhongrui Xingye") 天津中瑞興業房地產開發有限公司 | Controlled by Mr. Zhang Zhangqiao |
| Shenzhen Deep Sea Entertainment Management Co., Ltd.* ("Shenzhen Deep Sea") 深圳深海謎底娛樂管理有限公司 | Controlled by Mr. Zhang Zhangsun |
| Shantou Chenghai Glory Howard Johnson Guorui Hotel Co., Ltd.* ("Shantou Chenghai Glory") 汕頭市澄海國瑞豪生大酒店有限公司 | Controlled by Ms. Zhang Youxi |
| Shenzhen Guorui Medical Industry Development Co., Ltd.* ("Shenzhen Guorui Medical") 深圳國瑞醫療產業發展有限公司 | Controlled by Ms. Zhang Jin |
| Shenzhen Aiguoyi Children's Paradise Management Co., Ltd.* ("Shenzhen Aiguoyi") 深圳愛國懿兒童樂園管理有限公司 | Controlled by Mr. Zhang Zhangsun |
| Shenzhen Guoyu Network Technology Co., Ltd.* ("Shenzhen Guoyu") 深圳國裕網絡科技有限公司 | Controlled by Ms. Zhang Jin |
| Shenzhen Diyun Real Estate Consulting Co., Ltd.* ("Shenzhen Diyun") 深圳地雲地產諮詢有限公司 | Controlled by Mr. Zhang Zhangsun |

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

26. RELATED PARTY BALANCES AND TRANSACTIONS (Continued)

- (a) The following parties are identified as related parties to the Group and the respective relationships are set out below: (Continued)

| Name of related party | Relationship |
|---|-----------------------------------|
| Beijing Guoyin Investment Fund Management Co., Ltd.* ("Guoyin Fund Investment Management") 北京國銀投資基金管理有限公司 | Controlled by Ms. Zhang Jin |
| Tung Wo International Investment Limited ("Tung Wo International") | Controlled by Mr. Zhang Zhangsun |
| Beijing Yinhe Guorui Commercial Investment Co., Ltd.* ("Beijing Yinhe") 北京銀和國瑞商業投資有限公司 | Controlled by Ms. Zhang Jin |
| Beijing Dayuan Tongrui Investment Center (limited partnership)* ("Beijing Dayuan Tongrui") 北京達源通瑞投資中心(有限合夥) | Controlled by Ms. Zhang Youxi |
| Beijing Huirui Capital Investment Co., Ltd.* ("Beijing Huirui") 北京匯瑞資本投資有限公司 | Controlled by Ms. Zhang Youxi |
| Chongqing Longxia Real Estate Development Co., Ltd.* ("Chongqing Longxia") 重慶龍廈房地產開發有限公司 | Controlled by Mr. Zhang Zhangqiao |
| Beijing Guoxing Real Estate Co., Ltd.* ("Beijing Guoxing") 北京國興地產有限公司 | Controlled by Mr. Zhang Zhangqiao |
| Chongqing Ruiao Real Estate Co., Ltd.* ("Chongqing Ruiao") 重慶瑞奧置業有限公司 | Controlled by Mr. Zhang Zhangqiao |
| Hebei Guoxia Real Estate Development Co., Ltd.* ("Hebei Guoxia") 河北國廈房地產開發有限公司 | Controlled by Mr. Zhang Zhangqiao |

* The English name of the companies established in the PRC are for reference only and have not been registered.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

26. RELATED PARTY BALANCES AND TRANSACTIONS (Continued)

- (b) As at June 30, 2020 and December 31, 2019, the Group has prepayments to or amounts receivable from the following related parties and the details are set out below:

| Name of related party | As at June 30, 2020 RMB'000 (Unaudited) | As at December 31, 2019 RMB'000 (Audited) |
|--------------------------------------|---|---|
| Trade nature (Note (i)): | | |
| Foshan Yinhe | 22,764 | 22,432 |
| Beijing Huirui | 7,204 | 7,204 |
| Beijing Dayuan Tongrui | 4,000 | 2,150 |
| Guoyin Fund Investment Management | – | 228 |
| | 33,968 | 32,014 |
| Non-trade nature (Note (ii)): | | |
| Guangdong Guosha Investment | 2,583,062 | 2,817,490 |
| Ruida Zhiye | 1,255,651 | 1,301,157 |
| Maorui Zhiye | 739,331 | 135,095 |
| Longhu Huamu | 4,000 | 4,000 |
| Wuxi Glory | 75,262 | 76,521 |
| Tianjin Zhongrui Xingye | 72,475 | – |
| Glory Services | 38,524 | 20,171 |
| Tangshan Guosha Real Estate | 26,100 | – |
| Glory Commercial Management | 14,775 | 14,573 |
| Shenzhen Glory Industrial | 9,110 | 9,110 |
| Jinming Wujin | 6,648 | 5,689 |
| Shenzhen Guorui Medical | 5,526 | – |
| Ruimao Real Estate | 4,592 | 16,580 |
| Xian Ruihe | 4,426 | 3,011 |
| Shenzhen guokesheng robot | 3,998 | – |
| Shenzhen Aiguoyi | 2,983 | – |
| Shenzhen Guoyu | 2,655 | – |
| Foshan Yinhe | 2,467 | 17,001 |
| Hainan Glory Commercial Management | 1,264 | 1,264 |
| Shenyang Xingda | 1,160 | 1,160 |
| Alltogether Land | 542 | 5,811 |
| Shenzhen Diyun | 37 | – |
| Tung Wo International | 22 | 2 |
| Mr. Zhang Zhangsun | – | 7 |
| | 4,854,610 | 4,428,642 |
| Total | 4,888,578 | 4,460,656 |
| Allowance for credit losses | (19,800) | (19,800) |
| Total | 4,868,778 | 4,440,856 |
| Analyzed for reporting purposes as: | | |
| Non-current | 2,033,669 | – |
| Current | 2,835,109 | 4,440,856 |
| | 4,868,778 | 4,440,856 |

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

26. RELATED PARTY BALANCES AND TRANSACTIONS (Continued)

- (b) As at June 30, 2020 and December 31, 2019, the Group has prepayments to or amounts receivable from the following related parties and the details are set out below: (Continued)

Notes:

- (i) Balances of trade nature are unsecured, interest free, and aged within one year.
- (ii) Balances of non-trade nature are unsecured and repayable on demand. Included in the balances were RMB1,954,147,000 (2019: RMB1,232,085,000) bearing interest ranging from 4.35% to 9.30% (2019: 4.35% to 9.30%).

- (c) As at June 30, 2020 and December 31, 2019, the Group has amounts due to the following related parties and the details are set out below:

| | As at June 30, 2020 RMB'000 (Unaudited) | As at December 31, 2019 RMB'000 (Audited) |
|--------------------------------------|---|---|
| Trade nature (Note (i)): | | |
| Glory Commercial Management | 57,685 | 32,212 |
| Glory Services | 20,717 | 11,252 |
| Shenyang Xingda | 605 | 674 |
| | 79,007 | 44,138 |
| Non-trade nature (Note (ii)): | | |
| Longhu Huamu | 2,842,493 | 1,427,788 |
| Guangdong Guosha Investment | 1,563,258 | 2,713,155 |
| Alltogether Land (Note (iii)) | 874,185 | 717,242 |
| Ruimao Real Estate | 303,453 | 419,147 |
| Shenzhen Glory Industrial | 7,800 | – |
| Shantou Chenghai | 234 | – |
| Glory Services | 214 | 189 |
| Shenzhen Deep Sea | 200 | – |
| Beijing Yinhe | 148 | 148 |
| Shantou Chenghai Glory | 100 | – |
| Mr. Zhang Zhangsun | 4 | – |
| Tung Wo International | – | 200 |
| | 5,592,089 | 5,277,869 |
| Total | 5,671,096 | 5,322,007 |

Notes:

- (i) Balances of trade nature are unsecured, interest free, and aged within one year.
- (ii) Balances of non-trade nature are unsecured, interest free, and repayable on demand.
- (iii) The amount represented dividend payable and advance received.

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

26. RELATED PARTY BALANCES AND TRANSACTIONS (Continued)

- (d) During the six months ended June 30, 2020 and 2019, the Group entered into the following transactions with its related parties:

| Name of related party | Nature of transaction | Six months ended June 30, | |
|-----------------------------|----------------------------------|--------------------------------|--------------------------------|
| | | 2020 RMB'000 (Unaudited) | 2019 RMB'000 (Unaudited) |
| Glory Commercial Management | Property management services fee | 11,815 | 9,706 |
| Glory Services | Property management services fee | 10,912 | 3,533 |

- (e) Mr. Zhang Zhangsun and Ms. Ruan Wenjuan have provided guarantees for certain borrowings granted to the Group for nil consideration. As at June 30, 2020, the Group has borrowings guaranteed by Mr. Zhang Zhangsun and Ms. Ruan Wenjuan amounting to RMB16,104,704,000 (December 31, 2019: RMB13,129,073,000).

Mr. Zhang Zhangqiao and his spouse have provided guarantees for certain borrowings granted to the Group for nil consideration. As at June 30, 2020, the Group has borrowings guaranteed by Mr. Zhangqiao and his spouse amounting to RMB1,651,732,000 (December 31, 2019: RMB1,117,524,000).

Chongqing Longxia has provided guarantees for certain borrowings granted to the Group for nil consideration. As at June 30, 2020, the Group has borrowings guaranteed by Chongqing Longxia amounting to RMB739,132,000 (December 31, 2019: RMB494,924,000).

Guangdong Guoxia Investment has provided guarantees for certain borrowings granted to the Group for nil consideration. As at June 30, 2020, the Group has borrowings guaranteed by Guangdong Guoxia Investment amounting to RMB815,000,000 (December 31, 2019: RMB465,000,000).

Beijing Guoxing has provided guarantees for certain borrowings granted to the Group for nil consideration. As at June 30, 2020, the Group has borrowings guaranteed by Beijing Guoxing amounting to RMB470,132,000 (December 31, 2019: RMB494,924,000).

Chongqing Ruiao has provided guarantees for certain borrowings granted to the Group for nil consideration. As at June 30, 2020, the Group has borrowings guaranteed by Chongqing Ruiao amounting to RMB80,000,000 (December 31, 2019: RMB80,000,000).

Hebei Guoxia has provided guarantees for certain borrowings granted to the Group for nil consideration. As at June 30, 2020, the Group has borrowings guaranteed by Hebei Guoxia amounting to RMB350,000,000 (December 31, 2019: nil).

Tianjin Zhongrui Xingye has provided guarantees for certain borrowings granted to the Group for nil consideration. As at June 30, 2020, the Group has borrowings guaranteed by Tianjin Zhongrui Xingye amounting to RMB350,000,000 (December 31, 2019: nil).

Notes to the Condensed Consolidated Financial Statements

For the six months ended June 30, 2020

26. RELATED PARTY BALANCES AND TRANSACTIONS (Continued)

- (f) Handan Guoxia and Shijiazhuang Guoxia has provided guarantee for a bank borrowing granted to the Shijiazhuang Guolong, a company controlled by Mr. Zhang Zhangqiao, of which the bank borrowing guaranteed by the Group was amounting to RMB100,000,000 (December 31, 2019: RMB100,000,000).

Garden Group has provided guarantee to a bank for a banking facility granted to the Ruida Zhiye, of which the bank borrowing guaranteed by the Group was amounting to RMB747,249,000 (December 31, 2019: RMB799,785,000).

- (g) Key management personnel emoluments

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, which include the Directors and other key management of the Group. The key management personnel compensation are as follows:

| | Six months ended June 30 | |
|----------------------------------|--------------------------------|--------------------------------|
| | 2020 RMB'000 (unaudited) | 2019 RMB'000 (unaudited) |
| Short-term employee benefits | 12,283 | 13,399 |
| Retirement benefit contributions | 55 | 303 |
| | 12,338 | 13,702 |

Independent Auditor's Report

For the year ended December 31, 2019

Deloitte

德勤

TO THE SHAREHOLDERS OF GUORUI PROPERTIES LIMITED (INCORPORATED UNDER THE NAME OF "GLORY LAND COMPANY LIMITED (國瑞置業有限公司)" IN THE CAYMAN ISLANDS AND CARRYING ON BUSINESS IN HONG KONG AS "GUORUI PROPERTIES LIMITED")

OPINION

We have audited the consolidated financial statements of Guorui Properties Limited (incorporated under the name of "**Glory Land Company Limited (國瑞置業有限公司)**" in the Cayman Islands and carrying on business in Hong Kong as "**Guorui Properties Limited**") (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 272 to 415, which comprise the consolidated statement of financial position as at December 31, 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("**ISAs**") issued by the International Auditing and Assurance Standards Board. 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 are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "**Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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.

Independent Auditor's Report

For the year ended December 31, 2019

Key audit matter

How our audit addressed the key audit matter

Valuation of investment properties

We identified the valuation of investment properties as a key audit matter because the valuation process is based on an estimation of future results, a set of assumptions and a determination of key inputs, which are judgmental. Any changes to these inputs may have a significant impact on the fair value. The management determined the fair value of the Group's investment properties at December 31, 2019 with the assistance of an external valuer.

Details of the investment properties and the related key estimation uncertainty are set out in notes 17 and 4 to the consolidated financial statements respectively.

Our procedures in relation to valuation of investment properties included:

- Evaluating the competence, capabilities and objectivity of the external valuer engaged by the management;
- Obtaining a copy of valuation report prepared by the external valuer and discussing with the external valuer to understand the basis of determination of valuation; and
- Challenging the external valuer the methodologies and judgments used in valuing the investment properties and obtaining the market evidence that the external valuer used to support the key inputs.

Revenue from property sales

We identified the revenue from property sales as a key audit matter due to the significance of the amount and volume of sales transactions recognized during the year.

Details of revenue from property sales are set out in note 5 to the consolidated financial statements.

Our procedures in relation to revenue from property sales included:

- Understanding the design and testing the implementation of key internal controls over revenue recognition for property sales on a sample basis; and
- Selecting property sales transactions on a sample basis and:
 - reading the signed sales and purchase agreements to understand the relevant terms of the timing of property delivery and transfer of control;
 - obtaining evidence regarding the property delivery and transfer of control; and
 - reconciling the monetary amounts of recorded transactions and related payments to the signed sales and purchase agreements.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include 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.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE 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 IFRSs and the disclosure requirements of 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.

Those charged with governance are 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 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs 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.

Independent Auditor's Report

For the year ended December 31, 2019

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism 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.
- 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.

Independent Auditor's Report

For the year ended December 31, 2019

We communicate with those charged with governance 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 those charged with governance 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 those charged with governance, 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 the independent auditor's report is Lam Kam Chiu.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

April 28, 2020

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended December 31, 2019

| | NOTES | Year ended December 31, | |
|--|-------|-------------------------|-----------------|
| | | 2019 RMB'000 | 2018 RMB'000 |
| Revenue | 5 | | |
| Contract with customers | | 7,484,658 | 6,102,294 |
| Leases | | 608,518 | 510,191 |
| Total revenue | | 8,093,176 | 6,612,485 |
| Cost of sales and services | | (5,954,455) | (4,013,283) |
| Gross profit | | 2,138,721 | 2,599,202 |
| Other gains and losses | 7 | 4,856 | 67,364 |
| Impairment losses under expected credit loss model, net of reversal | 11 | (27,213) | – |
| Other income | 8 | 176,326 | 159,267 |
| Change in fair value of investment properties | | 1,061,366 | 907,791 |
| Distribution and selling expenses | | (305,948) | (206,799) |
| Administrative expenses | | (556,802) | (507,815) |
| Other expenses | 9 | (20,115) | (53,252) |
| Share of losses of joint ventures | | (19,786) | (11,939) |
| Share of losses of associates | | (565) | (10,905) |
| Finance costs | 10 | (404,677) | (245,446) |
| Profit before tax | | 2,046,163 | 2,697,468 |
| Income tax expense | 14 | (826,550) | (1,128,237) |
| Profit for the year | 12 | 1,219,613 | 1,569,231 |
| Other comprehensive income (expense) | | | |
| <i>Items that will not be reclassified to profit or loss:</i> | | | |
| Fair value gain (loss) on equity instruments at fair value through other comprehensive income (“FVTOCI”) | | 3,893 | (9,593) |
| Income tax relating to items that will not be reclassified to profit or loss | | (973) | 2,398 |
| | | 2,920 | (7,195) |
| Total comprehensive income for the year | | 1,222,533 | 1,562,036 |
| Profit for the year attributable to: | | | |
| Owners of the Company | | 859,764 | 1,008,784 |
| Non-controlling interests | | 359,849 | 560,447 |
| | | 1,219,613 | 1,569,231 |

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended December 31, 2019

| | NOTE | Year ended December 31, | |
|--|------|-------------------------|-----------------|
| | | 2019 RMB'000 | 2018 RMB'000 |
| Total comprehensive income for the year attributable to: | | | |
| Owners of the Company | | 862,421 | 1,002,237 |
| Non-controlling interests | | 360,112 | 559,799 |
| | | 1,222,533 | 1,562,036 |
| Earnings per share | 15 | | |
| – Basic (RMB cents) | | 19.34 | 22.70 |
| – Diluted (RMB cents) | | 19.33 | 22.60 |

Consolidated Statement of Financial Position

At December 31, 2019

| | NOTES | At December 31, | |
|---|-------|-------------------|-------------------|
| | | 2019 RMB'000 | 2018 RMB'000 |
| Non-current Assets | | | |
| Investment properties | 17 | 21,150,000 | 19,545,072 |
| Property, plant and equipment | 18 | 1,885,865 | 1,687,653 |
| Right-of-use assets | 19 | 279,824 | — |
| Other non-current assets | 20 | 1,566,745 | 1,409,257 |
| Interests in joint ventures | 21 | 30,089 | 24,375 |
| Interests in associates | 22 | 5,000 | 565 |
| Equity instruments at FVTOCI | 23 | 32,400 | 220,307 |
| Prepaid lease payments | 24 | — | 275,466 |
| Deposit paid for acquisition of a subsidiary | | 169,620 | — |
| Deferred tax assets | 25 | 536,185 | 510,513 |
| Restricted bank deposits | 32 | 719,615 | 462,980 |
| Value added tax and tax recoverable | | 1,666,559 | 1,680,675 |
| | | 28,041,902 | 25,816,863 |
| Current Assets | | | |
| Inventories | | 61 | 67 |
| Deposits paid for acquisition of land | 26 | 369,301 | 830,301 |
| Properties under development for sale | 27 | 37,333,243 | 36,371,398 |
| Properties held for sale | 27 | 5,361,690 | 4,372,328 |
| Trade and other receivables, deposits and prepayments | 29 | 2,811,721 | 2,290,445 |
| Contract assets | 30 | 1,442,134 | 1,223,570 |
| Contract costs | 31 | 76,919 | 36,321 |
| Value added tax and tax recoverable | | 791,981 | 634,706 |
| Amounts due from related parties | 52 | 4,440,856 | 2,588,873 |
| Prepaid lease payments | 24 | — | 6,035 |
| Restricted bank deposits | 32 | 959,615 | 479,151 |
| Bank balances and cash | 33 | 536,926 | 1,030,143 |
| | | 54,124,447 | 49,863,338 |

Consolidated Statement of Financial Position

At December 31, 2019

| | NOTES | At December 31, | |
|---|-------|-------------------|-----------------|
| | | 2019 RMB'000 | 2018 RMB'000 |
| Current Liabilities | | | |
| Trade and other payables | 34 | 6,439,342 | 6,757,015 |
| Lease liabilities | 37 | 1,600 | — |
| Contract liabilities | 35 | 17,332,702 | 11,208,252 |
| Amounts due to related parties | 52 | 5,322,007 | 4,265,166 |
| Tax payable | 36 | 2,948,144 | 2,874,075 |
| Bank and trust borrowings – due within one year | 38 | 6,317,710 | 9,037,963 |
| Corporate bonds | 39 | 65,787 | 998,765 |
| Senior notes | 40 | 1,734,974 | 3,768,364 |
| | | 40,162,266 | 38,909,600 |
| Net Current Assets | | 13,962,181 | 10,953,738 |
| Total Assets less Current Liabilities | | 42,004,083 | 36,770,601 |
| Non-current Liabilities | | | |
| Rental deposits received | 34 | 122,063 | 106,312 |
| Lease liabilities | 37 | 2,974 | — |
| Bank and trust borrowings – due after one year | 38 | 15,748,894 | 14,261,021 |
| Corporate bonds | 39 | 500,000 | 54,670 |
| Senior notes | 40 | 3,076,320 | 677,419 |
| Deferred tax liabilities | 25 | 3,925,302 | 3,840,352 |
| | | 23,375,553 | 18,939,774 |
| Net Assets | | 18,628,530 | 17,830,827 |
| Capital and Reserves | | | |
| Share capital | 41 | 3,520 | 3,520 |
| Reserves | | 12,541,509 | 11,899,088 |
| Equity attributable to owners of the Company | | 12,545,029 | 11,902,608 |
| Non-controlling interests | 53 | 6,083,501 | 5,928,219 |
| Total Equity | | 18,628,530 | 17,830,827 |

The consolidated financial statements on pages 272 to 415 were approved and authorized for issue by the Board of Directors on April 28, 2020 and are signed on its behalf by:

Zhang Zhangsun
CHAIRMAN

Ruan Wenjuan
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended December 31, 2019

| | Attributable to owners of the Company | | | | | | | | | | | Total RMB'000 |
|---|---------------------------------------|-----------------------------|-------------------------------|-----------------------------------|------------------------------|---|---|---|---------------------------------|----------------------|---|------------------|
| | Share capital RMB'000 | Share premium RMB'000 | Capital reserve RMB'000 | Revaluation reserve RMB'000 | FVTOCI reserve RMB'000 | Other reserve RMB'000 (Note (i)) | Share-based payments reserve RMB'000 | Statutory surplus reserve RMB'000 (Note (ii)) | Retained earnings RMB'000 | Sub-total RMB'000 | Non- controlling interests RMB'000 | |
| At January 1, 2018 | 3,519 | 306,015 | 133,379 | 194,970 | 44,163 | (58,030) | 39,669 | 1,087,541 | 9,195,148 | 10,946,374 | 2,694,566 | 13,640,940 |
| Profit for the year | – | – | – | – | – | – | – | – | 1,008,784 | 1,008,784 | 560,447 | 1,569,231 |
| Other comprehensive expense for the year | – | – | – | – | (6,547) | – | – | – | – | (6,547) | (648) | (7,195) |
| Total comprehensive (expense) income for the year | – | – | – | – | (6,547) | – | – | – | 1,008,784 | 1,002,237 | 559,799 | 1,562,036 |
| Transfer of reserves | – | – | – | – | – | – | – | 131,833 | (131,833) | – | – | – |
| Dividend declared to owners of the Company (note 16) | – | (300,000) | – | – | – | – | – | – | – | (300,000) | – | (300,000) |
| Dividend declared to non-controlling interests | – | – | – | – | – | – | – | – | – | – | (270,000) | (270,000) |
| Exercise of share options (note 43) | 1 | 2,012 | – | – | – | – | (771) | – | – | 1,242 | – | 1,242 |
| Acquisitions of subsidiaries (note 44) | – | – | – | – | – | 187,460 | – | – | – | 187,460 | 3,025,149 | 3,212,609 |
| Acquisition of partial interest in a subsidiary (Note (iii)) | – | – | – | – | – | 64,810 | – | – | – | 64,810 | (84,810) | (20,000) |
| Disposal of partial interest in a subsidiary (Note (iv)) | – | – | – | – | – | 485 | – | – | – | 485 | 3,515 | 4,000 |
| At December 31, 2018 | 3,520 | 8,027 | 133,379 | 194,970 | 37,616 | 194,725 | 38,898 | 1,219,374 | 10,072,099 | 11,902,608 | 5,928,219 | 17,830,827 |

Consolidated Statement of Changes in Equity

For the year ended December 31, 2019

| | Attributable to owners of the Company | | | | | | | | | | | |
|---|---------------------------------------|--------------------------|----------------------------|--------------------------------|---------------------------|--|---|---|------------------------------|----------------------|--------------------------------------|------------------|
| | Share capital RMB'000 | Share premium RMB'000 | Capital reserve RMB'000 | Revaluation reserve RMB'000 | FVTOCI reserve RMB'000 | Other reserve RMB'000 (Note (i)) | Share-based payments reserve RMB'000 | Statutory surplus reserve RMB'000 (Note (ii)) | Retained earnings RMB'000 | Sub-total RMB'000 | Non-controlling interests RMB'000 | Total RMB'000 |
| Profit for the year | - | - | - | - | - | - | - | - | 859,764 | 859,764 | 359,849 | 1,219,613 |
| Other comprehensive income for the year | - | - | - | - | 2,657 | - | - | - | - | 2,657 | 263 | 2,920 |
| Total comprehensive income for the year | - | - | - | - | 2,657 | - | - | - | 859,764 | 862,421 | 360,112 | 1,222,533 |
| Transfer of reserves | - | - | - | - | - | - | - | 95,579 | (95,579) | - | - | - |
| Dividend declared to owners of the Company (note 16) | - | - | - | - | - | - | - | - | (220,000) | (220,000) | - | (220,000) |
| Dividend declared to non-controlling interests | - | - | - | - | - | - | - | - | - | - | (127,400) | (127,400) |
| Lapsed of share options (note 43) | - | - | - | - | - | - | (3,158) | - | 3,158 | - | - | - |
| Acquisition of partial interest in a subsidiary (Note (v)) | - | - | - | - | - | - | - | - | - | - | (4,551) | (4,551) |
| Disposal of a subsidiary (note 45) | - | - | - | - | - | - | - | - | - | - | (72,879) | (72,879) |
| Release upon disposal of equity instruments at FVTOCI (note 23) | - | - | - | - | (34,968) | - | - | - | 34,968 | - | - | - |
| At December 31, 2019 | 3,520 | 8,027 | 133,379 | 194,970 | 5,305 | 194,725 | 35,740 | 1,314,953 | 10,654,410 | 12,545,029 | 6,083,501 | 18,628,530 |

Consolidated Statement of Changes in Equity

For the year ended December 31, 2019

Notes:

- (i) Other reserve mainly represents (a) the differences between the amount by which non-controlling interests are adjusted and the fair value of consideration paid or received by the Group (as defined in note 1) in acquiring or disposal of partial interests in existing subsidiaries and capital contribution from non-controlling equity holders of subsidiaries; and (b) deemed contribution from a related party of RMB187,460,000 arising from acquisition of businesses during the year ended December 31, 2018, the details was set out in note 44.
- (ii) In accordance with the Articles of Association of all subsidiaries established in the People's Republic of China (the "PRC"), those subsidiaries are required to transfer 10% of the profit after taxation to the statutory surplus reserve until the reserve reaches 50% of the registered capital. Transfer to this reserve must be made before distributing dividends to equity holders. The statutory surplus reserve can be used to make up for previous years' losses, expand the existing operations or convert into additional capital of the subsidiaries.
- (iii) During the year ended December 31, 2018, Shenzhen Glory Real Estate Co., Ltd. 深圳國瑞興業房地產有限公司 ("Shenzhen Glory Xingye") has entered into an agreement with a third party to acquire 10% equity interest in Dachao Shan Real Estate Development Ltd. 深圳市大潮汕建設有限公司 ("Shenzhen Dachao Shan"), an existing subsidiary of the Group with a consideration of RMB20,000,000, of which RMB8,000,000 was paid in 2018 and RMB12,000,000 was paid during the year. The difference between the consideration paid and the carrying amount of the partial equity interest acquired amounting to RMB64,810,000 was recognized in other reserve.
- (iv) During the year ended December 31, 2018, Shantou Garden Group Co., Ltd. 汕頭花園集團有限公司 ("Garden Group") disposed 20% equity interest in Shenzhen Glory Xingye Culture Development Ltd. 深圳國瑞興業文化發展有限公司 ("Shenzhen Glory Xingye Culture") to Longhu Huamu Market Co., Ltd. 汕頭市龍湖花木市場有限公司 ("Longhu Huamu") which is controlled by Ms. Zhang Youxi, sister of Mr. Zhang Zhongsun, with a consideration of RMB4,000,000, which has not yet been received up to December 31, 2019. The difference between consideration and the carrying amount of the partial equity interest disposed amounting to RMB485,000 was recognized in other reserve.
- (v) During the year ended December 31, 2019, Beijing Glory Real Estate (Holding) Co., Ltd. 北京國瑞興業房地產控股有限公司 ("New Beijing Glory") acquired further 25% equity interest in Shantou Guohua Properties Real Estate Development Co., Ltd. 汕頭市國華置業地產開發有限公司 ("Shantou Guohua"), with a consideration of RMB4,551,000. Upon completion of this acquisition, the equity interest of Shantou Guohua was increased from 75% to 100% held by the Group.

Consolidated Statement of Cash Flows

For the year ended December 31, 2019

| | Year ended December 31, | |
|---|-------------------------|------------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| OPERATING ACTIVITIES | | |
| Profit before tax | 2,046,163 | 2,697,468 |
| Adjustments for: | | |
| Amortization of other non-current assets | 2,530 | 1,985 |
| Amortization of prepaid lease payments | — | 6,035 |
| Amortization of contract costs | 8,200 | — |
| Changes in fair value of investment properties | (1,061,366) | (907,791) |
| Depreciation of property, plant and equipment | 75,983 | 72,280 |
| Depreciation of right-of-use assets | 6,858 | — |
| Finance costs | 404,677 | 245,446 |
| Impairment loss under expected credit loss model, net of reversal | 27,213 | — |
| Foreign exchange (gain) loss | (3,665) | 54,320 |
| Gain from changes in fair value of financial assets at FVTPL | (344) | (14) |
| Gain from remeasurement of retained equity interest | — | (121,250) |
| Gain on disposal of a subsidiary | (925) | (405) |
| Loss (gain) on disposal of property, plant and equipment | 78 | (15) |
| Interest income | (129,735) | (145,627) |
| Share of losses of associates | 565 | 10,905 |
| Share of losses of joint ventures | 19,786 | 11,939 |
| Operating cash flows before movements in working capital | 1,396,018 | 1,925,276 |
| Decrease (increase) in other non-current assets, properties under development for sale and properties held for sale | 147,793 | (1,415,980) |
| Increase in deposits paid for acquisition of land | — | (225,291) |
| Decrease (increase) in inventories | 6 | (6) |
| Increase in trade and other receivables, deposits and prepayments | (32,369) | (500,990) |
| (Increase) decrease in contract assets | (12,422) | 144,910 |
| Increase in contract costs | (48,798) | (36,321) |
| Increase in amounts due from related parties | (15,242) | — |
| Increase in amounts due to related parties | 31,691 | 4,688 |
| Decrease in trade and other payables | (126,672) | (1,492,891) |
| Increase in contract liabilities | 5,455,328 | 3,401,839 |
| Increase in restricted bank deposits | (527,611) | (423,030) |
| Cash from operations | 6,267,722 | 1,382,204 |
| Income tax and land appreciation tax paid | (760,695) | (639,940) |
| NET CASH FROM OPERATING ACTIVITIES | 5,507,027 | 742,264 |

Consolidated Statement of Cash Flows

For the year ended December 31, 2019

| | NOTES | Year ended December 31, | |
|---|-------|-------------------------|------------------|
| | | 2019 RMB'000 | 2018 RMB'000 |
| INVESTING ACTIVITIES | | | |
| Interest received | | 27,520 | 14,088 |
| Purchase of property, plant and equipment and intangible assets | | (129,105) | (436,703) |
| Proceeds on disposal of property, plant and equipment | | 1,701 | 371 |
| Payments for investment properties | | (336,065) | (164,012) |
| Net cash inflow arising on acquisitions of subsidiaries | 44 | — | 730,169 |
| Disposal of a subsidiary | 45 | (40) | — |
| Payment of consideration payable for acquisition of subsidiaries in prior year | | — | (7,000) |
| Proceeds on disposal of equity instruments at fair value through other comprehensive income | | 134,260 | — |
| Net cash outflow on disposal of a subsidiary | 45 | — | (131) |
| Investments in associates | | (5,000) | — |
| Investments in joint ventures | | (25,500) | (25,500) |
| Purchase of entrusted financial products | | (64,000) | (287,038) |
| Proceeds on disposal of entrusted financial products | | 64,000 | 287,038 |
| Interest received from entrusted financial products | | — | 8,664 |
| Proceeds on disposal of financial assets at FVTPL | | 344 | 111 |
| Prepaid deposits for acquisition of a subsidiary | | (169,620) | — |
| Advances to related parties | | (6,431,549) | (2,801,978) |
| Repayments from related parties | | 4,677,223 | 4,979,061 |
| Withdrawal of restricted bank deposits | | 253,395 | 277,284 |
| Placement of restricted bank deposits | | (212,888) | (69,904) |
| NET CASH (USED IN) FROM INVESTING ACTIVITIES | | (2,215,324) | 2,504,520 |

Consolidated Statement of Cash Flows

For the year ended December 31, 2019

| | Year ended December 31, | |
|--|-------------------------|--------------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| FINANCING ACTIVITIES | | |
| New bank borrowings raised | 9,143,324 | 6,510,000 |
| New trust borrowings raised | — | 7,027,942 |
| New borrowings from financial institutions loans raised | 2,496,793 | — |
| Repayments of bank borrowings | (7,407,665) | (13,027,922) |
| Repayments of trust borrowings | (3,902,132) | (2,407,000) |
| Repayments of borrowings from financial institutions | (1,614,715) | — |
| Repayments of lease liabilities | (815) | — |
| Advances from related parties | 8,168,912 | 3,756,730 |
| Repayments to related parties | (6,929,648) | (2,557,945) |
| Repayment of corporate bonds | (500,320) | (2,945,330) |
| Repayment of senior notes | (3,477,605) | — |
| Proceeds on issue of senior notes | 3,725,472 | 2,222,540 |
| Transaction costs paid for issuance of senior notes | (169,595) | (36,839) |
| Interest paid | (2,480,442) | (2,175,254) |
| Payments for acquisition of partial interest in a subsidiary | (16,551) | (8,000) |
| Exercise of share options | — | 1,242 |
| Dividends paid to owners of the Company | (444,698) | (95,811) |
| Dividends paid to non-controlling interests | (125,240) | (72,500) |
| Payments of financing deposits | (249,995) | — |
| NET CASH USED IN FINANCING ACTIVITIES | (3,784,920) | (3,808,147) |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (493,217) | (561,363) |
| CASH AND CASH EQUIVALENTS AT JANUARY 1, 2019 | 1,030,143 | 1,591,506 |
| CASH AND CASH EQUIVALENTS AT DECEMBER 31, 2019, REPRESENTED BY BANK BALANCES AND CASH | 536,926 | 1,030,143 |

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

1. GENERAL

Guorui Properties Limited (the “**Company**”) was incorporated in the Cayman Islands under the name of “Glory Land Company Limited (國瑞置業有限公司)” as an exempted company with limited liability under the Company Laws (2012 Revision) of the Cayman Islands on July 16, 2012 which carries on business in Hong Kong as “Guorui Properties Limited”. Its parent and ultimate holding company is Alltogether Land Company Limited (通和置業有限公司) (“**Alltogether Land**”), a company incorporated in the British Virgin Islands. Mr. Zhang Zhongsun, who hold 100% equity interests of Alltogether Land, is the ultimate beneficial owner of the Company. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and its principal place of business is located at East Block, Hademen Plaza, 8-1#Chongwenmenwai Street, Dongcheng District, Beijing, the PRC.

The Company’s shares were listed on the mainboard of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

The Company and its subsidiaries (collectively referred to as the “**Group**”) are principally engaged in the business of property development, provision of primary land construction and development services, property investment, and provision of property management and related services.

The consolidated financial statements are presented in Renminbi (“**RMB**”), which is also the functional currency of the Company.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”)

New and amendment to IFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to IFRSs issued by the International Accounting Standards Board (the “**IASB**”) for the first time in the current year.

| | |
|----------------------|--|
| IFRS 16 | Leases |
| IFRIC 23 | Uncertainty over Income Tax Treatments |
| Amendments to IFRS 9 | Prepayment Features with Negative Compensation |
| Amendments to IAS 19 | Plan Amendment, Curtailment or Settlement |
| Amendments to IAS 28 | Long-term Interests in Associates and Joint Ventures |
| Amendments to IFRSs | Annual Improvements to IFRSs 2015-2017 Cycle |

Except for the application on IFRS 16 *Leases*, the application of the new and amendments to IFRSs in the current year has had no material impact on the Group’s financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (Continued)

New and amendment to IFRSs that are mandatorily effective for the current year (Continued)

2.1 IFRS 16 Leases

The Group has applied IFRS 16 for the first time in the current year. IFRS 16 superseded IAS 17 *Leases*, and the related interpretations.

Definition of a lease

The Group has elected the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease* and not apply this standards to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after January 1, 2019, the Group applies the definition of a lease in accordance with the requirements set out in IFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied IFRS 16 retrospectively with the cumulative effect recognized at the date of initial application, January 1, 2019.

As at January 1, 2019, the Group recognized additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities adjusted by any prepaid or accrued lease payments by applying IFRS 16.C8(b)(ii) transition. Any difference at the date of initial application is recognized in the opening retained earnings and comparative information has not been restated.

When applying the modified retrospective approach under IFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under IAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- i. elected not to recognize right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;
- ii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;
- iii. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases of leasehold land and buildings in the People’s Republic of China (the “PRC”) was determined on a portfolio basis; and

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (Continued)

New and amendment to IFRSs that are mandatorily effective for the current year (Continued)

2.1 IFRS 16 Leases (Continued)

As a lessee (Continued)

When recognizing the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rate applied is 8.08%.

| | At January 1, 2019 RMB'000 |
|---|----------------------------------|
| Operating lease commitments disclosed as at December 31, 2018 | 2,832 |
| Lease liabilities discounted at relevant incremental borrowing rates Less: Recognition exemption – short-term leases | 2,711 (1,584) |
| Lease liabilities relating to operating leases recognized upon application of IFRS 16 as at January 1, 2019 | 1,127 |
| Analyzed as | |
| Current | 171 |
| Non-current | 956 |
| | 1,127 |

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (Continued)

New and amendment to IFRSs that are mandatorily effective for the current year (Continued)

2.1 IFRS 16 Leases (Continued)

As a lessee (Continued)

The carrying amount of right-of-use assets for own use and those under subleases (classified as investment properties) as at January 1, 2019 comprises the following:

| | Note | Right-of-use assets RMB'000 |
|---|------|-----------------------------------|
| Right-of-use assets relating to operating leases recognized upon application of IFRS 16 | | 1,127 |
| Reclassified from prepaid lease payments | (a) | 275,466 |
| Reclassified from prepaid lease payments-current portion | (a) | 6,035 |
| | | 282,628 |
| By class: | | |
| Leasehold lands | | 281,501 |
| Land and buildings | | 1,127 |
| | | 282,628 |

- (a) Upfront payments for leasehold lands in the PRC were classified as prepaid lease payments as at December 31, 2018. Upon application of IFRS 16, the current and non-current portion of prepaid lease payments amounting to RMB6,035,000 and RMB275,466,000 respectively were reclassified to right-of-use assets.

As a lessor

In accordance with the transitional provisions in IFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with IFRS 16 from the date of initial application and comparative information has not been restated.

- (a) Upon application of IFRS 16, new lease contracts entered into but commence after the date of initial application relating to the same underlying assets under existing lease contracts are accounted as if the existing leases are modified as at January 1, 2019. The application has had no impact on the Group's consolidated statement of financial position at January 1, 2019. However, effective from January 1, 2019, lease payments relating to the revised lease term after modification are recognized as income on straight-line basis over the extended lease term.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (Continued)

New and amendment to IFRSs that are mandatorily effective for the current year (Continued)

2.1 IFRS 16 Leases (Continued)

As a lessor (Continued)

- (b) Before application of IFRS 16, refundable rental deposits received were considered as rights and obligations under leases to which IAS 17 applied under trade and other payables. Based on the definition of lease payments under IFRS 16, such deposits are not payments relating to the right-of-use assets and were adjusted to reflect the discounting effect at transition.
- (c) Effective on January 1, 2019, the Group has applied IFRS 15 *Revenue from Contracts with Customers* to allocate consideration in the contract to each lease and non-lease components. The change in allocation basis has had no material impact on the consolidated financial statements of the Group for the current year.

The following adjustments were made to the amounts recognized in the consolidated statement of financial position at January 1, 2019. Line items that were not affected by the changes have not been included.

| | Carrying amounts previously reported at December 31, 2018 RMB'000 | Adjustments RMB'000 | Carrying amounts under IFRS 16 at January 1, 2019 RMB'000 |
|----------------------------|---|------------------------|--|
| Non-current Assets | | | |
| Prepaid lease payments | 275,466 | (275,466) | – |
| Right-of-use assets | – | 282,628 | 282,628 |
| Current Assets | | | |
| Prepaid lease payments | 6,035 | (6,035) | – |
| Current Liabilities | | | |
| Lease liabilities | – | 1,127 | 1,127 |

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (Continued)

New and amendments to IFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to IFRSs that have been issued but are not yet effective:

| | |
|---|--|
| IFRS 17 | Insurance Contracts ¹ |
| Amendments to IFRS 3 | Definition of a Business ² |
| Amendments to IFRS 10 and IAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³ |
| Amendments to IAS 1 | Classification of Liabilities as Current or Non-current ⁵ |
| Amendments to IAS 1 and IAS 8 | Definition of Material ⁴ |
| Amendments to IFRS 9, IAS 39 and IFRS 7 | Interest Rate Benchmark Reform ⁴ |

¹ Effective for annual periods beginning on or after January 1, 2021

² Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after January 1, 2020

³ Effective for annual periods beginning on or after a date to be determined

⁴ Effective for annual periods beginning on or after January 1, 2020

⁵ Effective for annual periods beginning on or after January 1, 2022

In addition to the above new and amendments to IFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, *the Amendments to References to the Conceptual Framework in IFRS Standards*, will be effective for annual periods beginning on or after January 1, 2020.

Except for the amendments to IFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to IFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

Amendments to IFRS 3 Definition of a Business

The amendments:

- add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The election on whether to apply the optional concentration test is available on transaction-by-transaction basis;
- clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs; and
- narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs.

The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after the first annual reporting period beginning on or after January 1, 2020, with early application permitted.

The optional concentration test and the amended definition of a business are not expected to have a significant impact to the Group.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRSs. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for the investment properties and certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based Payment*, leasing transactions that are accounted for in accordance with IFRS 16 (since January 1, 2019) or IAS 17 (before application of IFRS 16), and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

A fair value measurement of a non-financial asset takes into account a market participant’s ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

For financial instruments and investment properties which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that at initial recognition the results of the valuation technique equals the transaction price.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

Changes in the Group's interests in existing subsidiaries

Changes in the Group's interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognized. A gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognized in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 *Financial Instrument* ("IFRS 9") or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Business combinations

Acquisitions of businesses, other than business combination under common control are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits* respectively; and

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations (Continued)

- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard; and
- lease liabilities are recognized and measured at the present value of the remaining lease payments (as defined in IFRS 16) as if the acquired leases were new leases at the acquisition date, except for leases for which (a) the lease term ends within 12 months of the acquisition date; or (b) the underlying asset is of low value. Right-of-use assets are recognized and measured at the same amount as the relevant lease liabilities, adjusted to reflect favorable or unfavorable terms of the lease when compared with market terms.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net amount of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets or at fair value. The choice of measurement basis is made on a transaction-by-transaction basis.

When the consideration transferred by the Group in a business combination includes a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at subsequent reporting dates, with the corresponding gain or loss being recognized in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations (Continued)

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognized in profit or loss or other comprehensive income, as appropriate. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income and measured under IFRS 9 would be accounted for on the same basis as would be required if the Group had disposed directly of the previously held equity interest.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted retrospectively during the measurement period (see above), and additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

Acquisition of a subsidiary not constitute a business

When the Group acquires a group of assets and liabilities that does not constitute a business, the Group identifies and recognizes the individual identifiable assets acquired and liabilities assumed by allocating purchase price first to financial assets/financial liabilities at the respective fair values, the remaining balance of the purchase price is then allocated to other identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates and joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, and investment in an associate or a joint venture is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. Changes in net assets of the associate/joint venture other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate or joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in associates and joint ventures (Continued)

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognized immediately in profit or loss in the period in which the investment is acquired.

The Group assesses whether there is an objective evidence that the interest in an associate or a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognized is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognized in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognized in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

Interest in joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with IFRSs applicable to the particular assets, liabilities, revenues and expenses.

When a group entity transacts with a joint operation in which a group entity is a joint operator (such as a sale or contribution of assets), the Group is considered to be conducting the transaction with the other parties to the joint operation, and gains and losses resulting from the transactions are recognized in the Group's consolidated financial statements only to the extent of other parties' interests in the joint operation.

When a group entity transacts with a joint operation in which a group entity is a joint operator (such as a purchase of assets), the Group does not recognize its share of the gains and losses until it resells those assets to a third party.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue from contracts with customers

The Group recognizes revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognized over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group’s performance as the Group performs;
- the Group’s performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group’s performance does 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.

Otherwise, revenue is recognized at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group’s right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group’s unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group’s obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

Input method

The progress towards complete satisfaction of a performance obligation is measured based on input method, which is to recognize revenue on the basis of the Group’s efforts or inputs to the satisfaction of a performance obligation relative to the total expected inputs to the satisfaction of that performance obligation, that best depict the Group’s performance in transferring control of goods or services.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue from contracts with customers (Continued)

Existence of significant financing component

In determining the transaction price, the Group adjusts the promised amount of consideration for the effects of the time value of money if the timing of payments agreed (either explicitly or implicitly) provides the customer or the Group with a significant benefit of financing the transfer of goods or services to the customer. In those circumstances, the contract contains a significant financing component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the contract or implied by the payment terms agreed to by the parties to the contract.

For contracts where the period between payment and transfer of the associated goods or services is less than one year, the Group applies the practical expedient of not adjusting the transaction price for any significant financing component.

For advance payments received from customers before the transfer of the associated goods or services in which the Group adjusts for the promised amount of consideration for a significant financing component, the Group applies a discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. The relevant interest expenses during the period between the advance payments were received and the transfer of the associated goods and services are accounted for on the same basis as other borrowing costs.

Incremental costs of obtaining a contract

Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained.

The Group recognizes such costs (e.g. sales commissions) as an asset if it expects to recover these costs. The asset so recognized is subsequently amortized to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate.

The Group applies the practical expedient of expensing all incremental costs to obtain a contract if these costs would otherwise have been fully amortized to profit or loss within one year.

Leases

Definition of a lease (upon application of IFRS 16 in accordance with transitions in note 2)

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified or arising from business combinations on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

The Group as a lessee (upon application of IFRS 16 in accordance with transitions in note 2)

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative standalone price of the lease component and the aggregate stand-alone price of the non-lease components.

Non-lease components are separated from lease component on the basis of their relative stand-alone prices.

As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the consolidated financial statements would not differ materially from individual leases within the portfolio.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of buildings that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets.

Lease payments on short-term lease and leases of low-value assets are recognized as expense on a straight-line basis or another systematic basis over the lease term.

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received; and
- any initial direct costs incurred by the Group.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

The Group as a lessee (upon application of IFRS 16 in accordance with transitions in note 2) (Continued)

Right-of-use assets (Continued)

The Group presents right-of-use assets that do not meet the definition of investment property or inventory as a separate line item on the consolidated statement of financial position. Right-of-use assets that meet the definition of investment property and inventory are presented within “investment properties”, “properties under development for sale” and “properties held for sale” respectively.

Refundable rental deposits

Refundable rental deposits paid are accounted under IFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognizes and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- amounts expected to be payable by the Group under residual value guarantees;

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review/ expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

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For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

The Group as a lessee (upon application of IFRS 16 in accordance with transitions in note 2) (Continued)

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities and lease incentives from lessor by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group as a lessee (prior to January 1, 2019)

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group's general policy on borrowing costs (see the accounting policy below). Contingent rentals are recognized as expenses in the periods in which they are incurred.

Operating lease payments, including the cost of acquiring land held under operating leases, are recognized as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

The Group as a lessee (prior to January 1, 2019) (Continued)

Lease incentives relating to operating leases are considered as integral part of lease payments, the aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis.

The Group as lessor (upon application of IFRS 16)

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Amounts due from lessees under finance leases are recognized as receivables at commencement date at amounts equal to net investments in the leases, measured using the interest rate implicit in the respective leases. Initial direct costs (other than those incurred by manufacturer or dealer lessors) are included in the initial measurement of the net investments in the leases. Interest income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognized in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, and such costs are recognized as an expense on a straight-line basis over the lease term except for investment properties measured under fair value model. Upon application of IFRS 16 on January 1, 2019, variable lease payments for operating leases that depend on an index or a rate are estimated and included in the total lease payments to be recognized on a straight-line basis over the lease term. Variable lease payments that do not depend on an index or a rate are recognized as income when they arise.

Rental income which are derived from the Group's ordinary course of business are presented as revenue.

Allocation of consideration to components of a contract

When a contract includes both leases and non-lease components, the Group applies IFRS 15 to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

Refundable rental deposits

Refundable rental deposits received are accounted for under IFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

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For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

The Group as a lessor (upon application of IFRS 16) (Continued)

Lease modification

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognized at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognized in profit or loss in the period in which they arise.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Effective January 1, 2019, any specific borrowing that remain outstanding after the related asset is ready for its intended use or sale is included in the general borrowing pool for calculation of capitalization rate on general borrowings. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Retirement benefit costs

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Short-term and other long-term employee benefit

Short-term employee benefits are recognized at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognized as an expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognized for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Liabilities recognized in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date. Any changes in the liabilities' carrying amounts resulting from service cost, interest and remeasurements are recognized in profit or loss except to the extent that another IFRS requires or permits their inclusion in the cost of an asset.

Equity-settled share-based payment transactions

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share-based payments reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share-based payments reserve.

When share options are exercised, the amount previously recognized in share-based payments reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognized in share-based payments reserve will be transferred to retained earnings.

When shares granted are vested, the amount previously recognized in share-based payments reserve will be transferred to other reserve.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from profit before tax because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated statement of financial position and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from the initial recognition of assets and liabilities in a transaction (other than in a business combination) that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the liability is settled or the asset realized, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflect the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognizes the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 Income Taxes requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognized at initial recognition and over the lease terms due to application of the initial recognition exemption.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax is recognized in profit or loss, except when it relates to items that are recognized in other comprehensive income or directly in equity, in which case the current and deferred tax is also recognized in other comprehensive income or directly in equity respectively. When current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

In assessing any uncertainty over income tax treatments, the Group considers whether it is probable that the relevant tax authority will accept the uncertain tax treatment used, or proposed to be used by individual group entities in their income tax filings. If it is probable, the current and deferred taxes are determined consistently with the tax treatment in the income tax filings. If it is not probable that the relevant taxation authority will accept an uncertain tax treatment, the effect of each uncertainty is reflected by using either the most likely amount or the expected value.

Investment properties

Investment properties are properties held to earn rentals or/and for capital appreciation.

Effective January 1, 2019, investment properties also include leased properties which are being recognized as right-of-use assets upon application of IFRS 16 and subleased by the Group under operating leases.

Investment properties are measured initially at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values, adjusted to exclude any prepaid or accrued operating lease income. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

Construction costs incurred for investment properties under construction are capitalized as part of the carrying amount of the investment properties under construction.

If an investment property becomes owner-occupied as evidenced by commencement of owner-occupation, the property will be reclassified as property, plant and equipment at its fair value at the date of transfer.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Effective January 1, 2019, a leased property which is recognized as a right-of-use asset upon application of IFRS 16 is derecognized if the Group as intermediate lessor classifies the sublease as a finance lease. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment

Property, plant and equipment, including buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, for qualifying assets, borrowing costs capitalized in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Ownership interests in buildings

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "right-of-use assets" (upon application of IFRS 16) or "prepaid lease payments" (before application of IFRS 16) in the consolidated statement of financial position except for those that are classified and accounted for as investment properties under the fair value model. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

If a property becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item (including the relevant leasehold land under IFRS 16 or prepaid lease payments under IAS 17) at the date of transfer is recognized in other comprehensive income and accumulated in property revaluation reserve. On the subsequent sale or retirement of the property, the relevant revaluation reserve will be transferred directly to retained earnings.

Depreciation is recognized so as to write off the cost of assets (other than properties under construction) less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately and are carried at costs less accumulated amortization and any accumulated impairment losses. Amortization for intangible assets with finite useful lives is recognized on a straight-line basis over their estimated useful lives. Amortization begins when the intangible asset is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by the management. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognized separately from goodwill and are initially recognized at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at cost less accumulated amortization and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately. Intangible assets acquired in a business combination with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured at the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

Impairment on property, plant and equipment, right-of-use assets, contract costs and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets, intangible assets with finite useful lives and contract costs to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

The recoverable amount of property, plant and equipment, right-of-use assets, and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment on property, plant and equipment, right-of-use assets, contract costs and intangible assets other than goodwill (Continued)

In addition, the Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, corporate assets are also allocated to individual cash-generating units, when a reasonable and consistent basis of allocation can be identified, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit or a group of cash-generating units) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is calculated using the weighted average method. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Properties under development for sale/Properties held for sale

Properties under development which are intended to be sold upon completion of development and properties held for sale are classified as current assets. Except for the leasehold land element which is measured at cost model in accordance with the accounting policies of right-of-use assets upon the application of IFRS 16, properties under development and properties held for sale are carried at the lower of cost and net realizable value. Cost is determined on a specific identification basis including allocation of the related development expenditure incurred and where appropriate, borrowing costs capitalized. Net realizable value represents the estimated selling price for the properties less estimated cost to completion and costs necessary to make the sales.

Properties under development for sale are transferred to properties held for sale upon completion.

Transfer from inventories to investment properties carried at fair value

The Group transfers a property from inventories to investment property when there is a change in use to hold the property to earn rentals or/and for capital appreciation rather than for sale in the ordinary course of business, which is evidenced by the inception of an operating lease to another party. Any difference between the fair value of the property at the date of transfer and its previous carrying amount is recognized in profit or loss.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Notes to the Consolidated Financial Statements

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

Financial assets and financial liabilities are recognized when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss (“**FVTPL**”)) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of FVTPL are recognized immediately in profit or loss.

The effective interest method is a method of calculating the amortized cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortized cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income (“**FVTOCI**”):

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application of IFRS 9/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which IFRS 3 *Business Combinations* applies.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (Continued)

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortized cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

(i) *Amortized cost and interest income*

Interest income is recognized using the effective interest method for financial assets measured subsequently at amortized cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the amortized cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

(ii) *Equity instruments designated as at FVTOCI*

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in the FVTOCI reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained earnings.

Dividends from these investments in equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other income" line item in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (Continued)

(iii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortized cost or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognized in profit or loss. The net gain or loss recognized in profit or loss excludes any dividend or interest earned on the financial asset and is included in the “other gains and losses” line item.

Impairment of financial assets (and other items subject to impairment assessment under IFRS 9)

The Group performs impairment assessment under expected credit loss (“**ECL**”) model on financial assets (including restricted bank deposits, trade receivables arising from contracts with customers, other receivables, deposits, lease receivables, amounts due from related parties and bank balances) and other items (contract assets and financial guarantee contracts) which are subject to impairment under IFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL (“**12m ECL**”) represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognizes lifetime ECL for trade receivables, contract assets and lease receivables. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognizes lifetime ECL. The assessment of whether lifetime ECL should be recognized is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (and other items subject to impairment assessment under IFRS 9) (Continued)

(i) *Significant increase in credit risk*

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (and other items subject to impairment assessment under IFRS 9) (Continued)

(i) *Significant increase in credit risk (Continued)*

For financial guarantee contracts, the date that the Group becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing impairment. The Group considers the changes in the risk that the specified debtor will default on the contract.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) *Definition of default*

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

(iii) *Credit-impaired financial assets*

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- (a) significant financial difficulty of the issuer or the borrower;
- (b) a breach of contract, such as a default or past due event;
- (c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization;
or
- (e) the disappearance of an active market for that financial asset because of financial difficulties.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (and other items subject to impairment assessment under IFRS 9) (Continued)

(iv) *Write-off policy*

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognized in profit or loss.

(v) *Measurement and recognition of ECL*

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition. For a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with IFRS 16 (since January 1, 2019) or IAS 17 (prior to January 1, 2019).

For a financial guarantee contract, the Group is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed. Accordingly, the expected losses is the present value of the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Group expects to receive from the holder, the debtor or any other party.

For ECL on financial guarantee contracts for which the effective interest rate cannot be determined, the Group will apply a discount rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows but only if, and to the extent that, the risks are taken into account by adjusting the discount rate instead of adjusting the cash shortfalls being discounted.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (and other items subject to impairment assessment under IFRS 9) (Continued)

(v) Measurement and recognition of ECL (Continued)

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments;
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortized cost of the financial asset.

For financial guarantee contracts, the loss allowances are recognized at the higher of the amount of the loss allowance determined in accordance with IFRS 9; and the amount initially recognized less, where appropriate, cumulative amount of income recognized over the guarantee period.

Except for financial guarantee contracts, the Group recognizes an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables, other receivables and amounts due from related parties, lease receivables and contract assets where the corresponding adjustment is recognized through a loss allowance account.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (and other items subject to impairment assessment under IFRS 9) (Continued)

(v) *Measurement and recognition of ECL (Continued)*

Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset measured at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the FVTOCI reserve is not reclassified to profit or loss, but is transferred to retained earnings.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity (Continued)

Financial liabilities

All financial liabilities are subsequently measured at amortized cost using the effective interest method.

Financial liabilities at amortized cost

Financial liabilities including trade and other payables, amounts due to related parties, bank and trust borrowings, corporate bonds and senior notes are subsequently measured at amortized cost, using the effective interest method.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument. Financial guarantee contract liabilities are measured initially at their fair values. It is subsequently measured at the higher of:

- the amount of the loss allowance determined in accordance with IFRS 9; and
- the amount initially recognized less, where appropriate, cumulative amortization recognized over the guarantee period.

Derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when the Group's obligations specified in the relevant contract is discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of applying the Group's accounting policies, which are described in note 3, the Directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgments in applying accounting policies

The following are the critical judgments, apart from those involving estimations (see below), that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

Revenue recognition from property sales at a point in time

Under IFRS 15, control of the asset is transferred over time when the Group's performance does 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. The Group may not change or substitute the property unit or redirect the property unit for another use due to the contractual restrictions with the customers and thus the property unit does not have an alternative use to the Group, but significant judgment is required in determining whether the terms of the Group's contracts with customers in relation to property sales create an enforceable right to payment for the Group. The Group has considered the relevant contract terms and the legal environment. Based on the assessment, the Group concluded that it does not have an enforceable right to payment prior to transfer of the relevant properties to customers. Accordingly, revenue from the property sales is recognized at a point in time.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Critical judgments in applying accounting policies (Continued)

Deferred taxation on investment properties

For the purposes of measuring deferred tax arising from investment properties that are measured using the fair value model under IAS 40 amounted to RMB21,150,000,000 (2018: RMB19,545,072,000), as at December 31, 2019, the Directors concluded that the Group's investment properties are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time. Therefore, in determining the Group's deferred tax on investment properties, the Directors have determined the presumption that investment properties measured using the fair value model are recovered through sale is rebutted and the Group estimated the deferred tax on the basis of recovering through use.

Control over subsidiaries

The Group obtained the control of Guangdong Hongtaiguotong Estate Co., Ltd. 廣東宏泰國通地產有限公司 (“**Guangdong Hongtaiguotong**”), Tianjin Tianfurongsheng, Sanya Jingheng and Handan Guoxia (as defined in note 44) during the year ended December 31, 2018 although the Group has only 35% ownership interest in these entities as detailed in Note 44.

The Directors assessed whether or not the Group has control over these entities based on whether the Group has the practical ability to direct the relevant activities of these entities unilaterally. According to the articles of association of these entities, the Group has 67% voting rights in the shareholders' meeting and has right to appoint 2 out of 3 directors in the board of directors of these entities. Resolutions in shareholders' meeting of these entities are passed by more than two-thirds voting rights and in the board of directors of these entities are passed by majority votes. Therefore, the Directors concluded that the Group has control over those entities.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Fair value measurement of financial instruments

The Group's equity instruments at FVTOCI, amounting to RMB32,400,000 (2018: RMB220,307,000) as at December 31, 2019 are measured at fair values with fair values being determined based on unobserved inputs using valuation techniques. Judgement and estimation are required in establishing the relevant valuation techniques and the relevant inputs thereof. Changes in assumptions relating to these factors could affect the reported fair values of these instruments. See note 51 for further disclosures.

Provision of ECL for trade receivables and contract assets

The Group uses provision matrix to calculate ECL for the trade receivables and contract assets arising from contracts with customers and lease receivable. The provision rates are based on internal credit ratings as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration reasonable and supportable forward-looking information that is available without undue cost or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, trade receivables, lease receivables and contract assets with significant balances and credit impaired are assessed for ECL individually.

The provision of ECL is sensitive to changes in estimates. The information about the ECL, the Group's trade receivables, and contract assets are disclosed in notes 51, 29, and 30 respectively.

Construction costs allocation

Certain projects of the Group are divided into several phases according to the development and delivery plans. Cost of sales including construction cost specific to the phases and common costs allocated to the phases are calculated based on the management's best estimation of the total development costs for the whole project and the allocation to each phase. When the actual common costs incurred are significantly more or less than expected, or changes in circumstances which result in revision of the management's estimates, the effect of such change is recognized prospectively in the profit or loss in the period of the change.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Key sources of estimation uncertainty (Continued)

Primary land construction and development contracts

The Group carried out primary land construction and development projects for the Beijing Municipal People's Government (the "BMPG"). The Group recognized contract revenue on the primary land construction and development projects by reference to the recoverable costs incurred plus the fixed margin in accordance with relevant rules and regulations issued by the BMPG and other relevant agreements. Construction and development costs mainly comprise resettlement compensation, sub-contracting charges and costs of construction materials and are estimated by the management by reference to quotations provided by contractors and vendors and the past experience of the management. Estimation of the contract revenue and recoverable costs is subject to final approval from the BMPG. The Directors estimate contract revenue and recoverable costs based on latest available budgets of each primary land construction and development projects and current market conditions to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved. The final amounts will be approved by the BMPG and the differences from the estimation and approval will effect contract profit in the period in which the approval has been obtained.

Valuation of investment properties

External valuer was engaged to carry out an independent valuation of the Group's investment property portfolio as at December 31, 2019. The fair value of each investment property is individually determined at the end of the reporting period. The external valuer has applied the income capitalization approach and the direct comparison method. These methodologies are based on an estimation of future results, a set of assumptions and a determination of relevant key inputs specific to each property to reflect its tenancy and cash flow profile. Changes to these estimation, assumptions and key inputs would result in changes in the fair values of the Group's investment properties and the corresponding adjustments would be recognized in profit or loss.

Valuation of properties under development for sale acquired in business combination

External valuer was engaged to carry out an independent valuation of the fair value of the identifiable assets and liabilities acquired in business combination as detailed in note 44 as of the date of acquisition. The fair value of each property under development for sale is individually determined at the date of acquisition as the significant judgements involved in the valuation. The valuation process is based on an estimation of future results, a set of assumptions and a determination of key inputs, which are judgmental. Any changes to these inputs may have a significant impact on the fair value of properties under development for sale as of the date of acquisition. The management determined the fair value of the Group's properties under development for sale, together with other identifiable assets acquired and liabilities incurred, as of the date of acquisition with the assistance of an external valuer. The external valuer has applied the income approach and the direct comparison method. These methodologies are based on an estimation of future results, a set of assumptions and a determination of relevant key inputs specific to each property to reflect its cash flow profile.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Key sources of estimation uncertainty (Continued)

Income tax expense

Deferred tax assets of RMB536,185,000 (2018: RMB510,513,000) were recognized as at December 31, 2019, after offsetting certain deferred tax liabilities as set out in note 25. No deferred tax assets were recognized on the tax losses of RMB404,163,000 (2018: RMB349,905,000) due to the unpredictability of future profit streams. The recognition of the deferred tax assets mainly depends on whether sufficient taxable profits or taxable temporary differences will be available in the future. The Directors determined the deferred tax assets based on the enacted or substantially enacted tax rates and profit forecasts of the Group for coming years during which the deferred tax assets are expected to be utilized. The Directors reviewed the assumptions and profit forecasts at the end of each reporting period. In cases where the actual future profits generated are more or less than expected, or changes in facts and circumstances, an additional recognition or a reversal of deferred tax assets may arise, which would be recognized in the profit or loss for the period in which such a recognition or reversal takes place.

Land appreciation tax ("LAT")

The Group is subject to LAT in the PRC. However, the implementation and settlement of the tax varies amongst different tax jurisdictions in various cities of the PRC and certain property development projects of the Group have not yet finalized their LAT calculations and payments with local tax authorities in the PRC. Accordingly, significant estimation is required in determining the amount of LAT and its related enterprise income tax. The Group recognized the LAT based on the management's best estimates. The final tax outcome could be different from the amounts that were initially recorded, and these differences will impact the income tax expense in the period in which such tax is finalized with local tax authorities.

LAT payable of the Group amounted to RMB1,543,169,000 (2018: RMB1,666,300,000) as at December 31, 2019.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

5. REVENUE

- (i) **Disaggregation of revenue from contracts with customers and the reconciliation of the revenue from contracts with customers with the amounts disclosed in the segment information**

| | For the year ended December 31, 2019 | | | | |
|---------------------------------------|--------------------------------------|---|--------------------------------|---|------------------|
| | Property development RMB'000 | Primary land construction and development services RMB'000 | Property investment RMB'000 | Property management and related services RMB'000 | Total RMB'000 |
| Timing of revenue recognition | | | | | |
| A point in time | 7,256,704 | - | - | 21,692 | 7,278,396 |
| Over time | - | 206,262 | - | - | 206,262 |
| Revenue from contracts with customers | 7,256,704 | 206,262 | - | 21,692 | 7,484,658 |
| Leases | - | - | 608,518 | - | 608,518 |
| Total revenue | 7,256,704 | 206,262 | 608,518 | 21,692 | 8,093,176 |
| Geographical market | | | | | |
| Mainland China | 7,256,704 | 206,262 | 608,518 | 21,692 | 8,093,176 |

| | For the year ended December 31, 2018 | | | | |
|---------------------------------------|--------------------------------------|---|--------------------------------|---|------------------|
| | Property development RMB'000 | Primary land construction and development services RMB'000 | Property investment RMB'000 | Property management and related services RMB'000 | Total RMB'000 |
| Timing of revenue recognition | | | | | |
| A point in time | 5,924,612 | - | - | - | 5,924,612 |
| Over time | - | 156,451 | - | 21,231 | 177,682 |
| Revenue from contracts with customers | 5,924,612 | 156,451 | - | 21,231 | 6,102,294 |
| Leases | - | - | 510,191 | - | 510,191 |
| Total revenue | 5,924,612 | 156,451 | 510,191 | 21,231 | 6,612,485 |
| Geographical market | | | | | |
| Mainland China | 5,924,612 | 156,451 | 510,191 | 21,231 | 6,612,485 |

5. REVENUE (Continued)

(ii) Performance obligations for contracts with customers

Properties sales arising from property development (revenue recognized at a point in time)

For contracts entered into with customers on sales of properties, the relevant properties specified in the contracts are with no alternative use. Taking into consideration of the relevant contract terms, the legal environment, the Group concluded that the Group does not have an enforceable right to payment prior to transfer of the relevant properties to customers. Revenue from sales of residential properties is therefore recognized at a point in time when the completed property is transferred to customers, being at the point that the customer obtains the control of the completed property and the Group has present right to payment and collection of the consideration is probable.

The Group receives a deposit ranging from 10% to 20% of the contract price from customers when they sign the sale and purchase agreement. However, depending on market conditions, the Group may offer a discount to certain customers, provided that the customers agree to make a full payment during the construction period. Such advance payment will be recognized as contract liabilities.

The Group considers the advance payment schemes contain significant financing component and accordingly the amount of consideration is adjusted for the effects of the time value of money taking into consideration the credit characteristics of the Group. As this accrual increases the amount of the contract liabilities during the construction period, a corresponding increases in revenue will be recognized when control of the completed property is transferred to the customer.

The Group applies the practical expedient of expensing all incremental costs to obtain a contract if these costs would otherwise have been fully amortized to profit or loss within one year.

Construction and development services from primary land construction and development services (revenue recognized over time)

The Group provides primary land construction and development services in order to access potentially available land reserves for property development. Such services are recognized as a performance obligation satisfied over time as the Group creates or enhances an asset that the customer controls as the asset is created or enhanced. Revenue is recognized for these construction and development services based on the stage of completion of the contract using input method.

A contract asset, net of contract liability related to the same contract, is recognized over the period in which the services are performed representing the Group's right to consideration for the services performed because the rights are conditioned on the Group's future performance in achieving specified milestones. The contract assets are transferred to trade receivables when the rights become unconditional.

Property management and related services (revenue recognized over time)

Revenue arising from property management and related services is generally recognized over time as the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

5. REVENUE (Continued)

(iii) Lease

For the year ended December 31, 2019

| | <i>RMB'000</i> |
|--|----------------|
| For operating leases: Lease payments that are fixed or depend on an index or a rate | 608,518 |

For the year ended December 31, 2018

| | <i>RMB'000</i> |
|--|----------------|
| For operating leases: Operating lease income – property | 510,191 |

There was no contingent rental in the operating lease income.

6. SEGMENT INFORMATION

The Group is organized into business units based on their types of activities. These business units are the basis of information that is prepared and reported to the Group's chief operating decision maker (i.e. the executive directors of the Company) for the purposes of resource allocation and assessment of performance. The Group's operating segments under IFRS 8 *Operating Segments* are identified as the following four business units:

Property development: This segment develops and sells commercial and residential properties.

Primary land construction and development services: This segment derives revenue from primary land development, including services for resettlement, construction of land infrastructure and ancillary public facilities on land owned by the local governments.

Property investment: This segment derives rental income from investment properties developed by the Group.

Property management and related services: This segment derives income from property management and related services.

6. SEGMENT INFORMATION (Continued)

Segment revenue and results

The following is the analysis of the Group's revenue and results by reportable and operating segment.

| | Property development RMB'000 | Primary land construction and development services RMB'000 | Property investment RMB'000 | Property management and related services RMB'000 | Total RMB'000 |
|---|------------------------------------|---|-----------------------------------|--|------------------|
| Year ended December 31, 2019 | | | | | |
| Revenue from external customers and segment revenue | 7,256,704 | 206,262 | 608,518 | 21,692 | 8,093,176 |
| Segment profit | 908,248 | 3,197 | 398,199 | 7,555 | 1,317,199 |
| Year ended December 31, 2018 | | | | | |
| Revenue from external customers and segment revenue | 5,924,612 | 156,451 | 510,191 | 21,231 | 6,612,485 |
| Segment profit | 1,583,508 | 2,426 | 354,603 | 8,587 | 1,949,124 |

The segment profits can be reconciled to the profit before taxation as follows:

| | Year ended December 31, | |
|---|-------------------------|-----------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| Segment profit | 1,317,199 | 1,949,124 |
| Other gains and losses | 4,856 | 67,364 |
| Other income | 176,326 | 159,267 |
| Change in fair value of investment properties | 1,061,366 | 907,791 |
| Unallocated administrative expenses | (68,441) | (64,536) |
| Other expenses | (20,115) | (53,252) |
| Share of losses of joint ventures | (19,786) | (11,939) |
| Share of losses of associates | (565) | (10,905) |
| Finance costs | (404,677) | (245,446) |
| Consolidated profit before tax | 2,046,163 | 2,697,468 |

The accounting policies applied in determining segment revenue and segment results of the operating segments are the same as the Group's accounting policies described in note 3. Segment profit represents the profit earned by each segment without allocation of other gains and losses, other income, change in fair value of investment properties, other expenses, share of losses of joint ventures, share of losses of associates, finance costs and unallocated administrative expenses, including auditor's remuneration and directors' emoluments. This is the measure reported to the Group's chief operating decision maker for the purpose of resources allocation and performance assessment.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

6. SEGMENT INFORMATION (Continued)

Segment revenue and results (Continued)

Other segment information

Amounts included in the measurement of segment profit:

| | Property development RMB'000 | Primary land construction and development service RMB'000 | Property investment RMB'000 | Property management and related services RMB'000 | Unallocated amount RMB'000 | Total RMB'000 |
|--|---------------------------------|--|--------------------------------|---|-------------------------------|------------------|
| Year ended December 31, 2019 | | | | | | |
| Depreciation and amortization | 26,238 | - | 4,505 | 8,845 | 45,783 | 85,371 |
| Impairment losses under expected credit loss model | 25,199 | - | 2,014 | - | - | 27,213 |
| | 51,437 | - | 6,519 | 8,845 | 45,783 | 112,584 |
| Year ended December 31, 2018 | | | | | | |
| Depreciation and amortization | 25,355 | - | 4,800 | 5,249 | 38,861 | 74,265 |
| Release of prepaid lease payments | - | - | 81 | 26 | 5,928 | 6,035 |

No segment assets and liabilities are presented as they were not regularly provided to the chief operating decision maker for the purpose of resources allocation and performance assessment.

Geographical information

All the revenue and operating results of the Group is derived from the PRC based on location of the operations. All the Group's non-current assets (excluding financial instruments and deferred tax assets) are located in the PRC based on geographical location of the assets or the associates' and joint venture's operation, as appropriate.

Revenue from major customers

No revenue from transactions with a single external customer amounted to 10% or more of the Group's revenue during the years ended December 31, 2019 and 2018.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

7. OTHER GAINS AND LOSSES

| | Year ended December 31, | |
|--|-------------------------|-----------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| Net foreign exchange gain (loss) | 3,665 | (54,320) |
| (Loss) gain on disposal of property, plant and equipment | (78) | 15 |
| Gain on disposal of a subsidiary (note 45) | 925 | 405 |
| Gain from changes in fair value of financial assets at FVTPL | 344 | 14 |
| Gain from remeasurement of previously held equity interest (note 44) | – | 121,250 |
| | 4,856 | 67,364 |

8. OTHER INCOME

| | Year ended December 31, | |
|---|-------------------------|-----------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| Interest income from related parties | 96,431 | 123,947 |
| Interest income from bank deposits | 9,719 | 13,016 |
| Interest income from a third party | 23,585 | – |
| Interest income from entrusted financial products | – | 8,664 |
| Total interest income | 129,735 | 145,627 |
| Compensation received | 3,875 | 4,332 |
| Others | 42,716 | 9,308 |
| | 176,326 | 159,267 |

9. OTHER EXPENSES

| | Year ended December 31, | |
|-------------------|-------------------------|-----------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| Donations | 9,336 | 28,725 |
| Compensation paid | 3,259 | 21,546 |
| Others | 7,520 | 2,981 |
| | 20,115 | 53,252 |

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

10. FINANCE COSTS

| | Year ended December 31, | |
|---|-------------------------|-----------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| Interest on bank borrowings | 1,304,047 | 1,101,531 |
| Interest on trust borrowings | 559,748 | 477,083 |
| Interest on loan from financial institutions | 179,929 | 62,036 |
| Interest on significant financing component of contract liabilities | 669,122 | 402,582 |
| Interest on corporate bonds | 55,570 | 260,119 |
| Interest on senior notes | 630,511 | 358,780 |
| Interest on lease liabilities | 208 | – |
| Exchange loss on senior notes and borrowings | 49,732 | 319,846 |
| Total borrowing costs | 3,448,867 | 2,981,977 |
| Less: Amounts capitalized in the cost of qualifying assets | (3,044,190) | (2,736,531) |
| | 404,677 | 245,446 |

Borrowing costs capitalized during the year arose from borrowings made specifically for the purpose of constructing the qualifying assets, which bore annual interest at rates from 4.75% to 10.80% (2018: 4.75% to 10.00%) per annum and general borrowings pool calculated by applying a capitalization rate of 10.87% (2018: 10.27%) per annum on expenditure on the qualifying assets.

11. IMPAIRMENT LOSSES UNDER EXPECTED CREDIT LOSS MODEL, NET OF REVERSAL

| | Year ended December 31, | |
|-----------------------------------|-------------------------|-----------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| Impairment losses on: | | |
| – Trade receivables | (462) | – |
| – Lease receivables | (2,014) | – |
| – Other receivables | (4,937) | – |
| – Amount due from related parties | (19,800) | – |
| | (27,213) | – |

Details of impairment assessment are set out in note 51.

12. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging (crediting):

| | Year ended December 31, | |
|---|-------------------------|-----------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| Directors' emoluments (<i>note 13</i>) | 13,962 | 11,559 |
| Other staff costs: | | |
| – Salaries and other benefits | 376,895 | 363,939 |
| – Retirement benefit contributions | 24,546 | 24,174 |
| Total staff costs | 415,403 | 399,672 |
| Less: Amounts capitalized to properties under development and investment properties under construction (Note) | (194,932) | (144,390) |
| | 220,471 | 255,282 |
| Cost of properties sold recognized as expense | 5,684,196 | 3,802,042 |
| Auditor's remuneration | 5,389 | 5,141 |
| Depreciation of property, plant and equipment | 75,983 | 72,280 |
| Depreciation of right-of-use assets | 6,858 | – |
| Amortization of intangible assets (included in administrative expenses) | 2,530 | 1,985 |
| Amortization of contract costs | 8,200 | – |
| Release of prepaid lease payments (included in administrative expenses) | – | 6,035 |
| Operating lease rental expenses | 3,254 | 2,040 |
| Gross rental income from investment properties | (608,518) | (510,191) |
| Less: direct operating expenses incurred for investment properties that generated rental income during the year | 210,319 | 155,588 |
| | (398,199) | (354,603) |

Note: The amount capitalized mainly represents costs of certain staff of the project management department and the design department, who were assigned to construction sites and engaged in specific construction projects directly.

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13. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

Directors' and chief executive's remuneration for the year, disclosed pursuant to the applicable Listing Rules and Hong Kong Companies Ordinance, is as follows:

| | Fees RMB'000 | Salaries and other benefits RMB'000 | Performance related bonuses RMB'000 | Retirement benefits RMB'000 | Equity-settled share-based expense RMB'000 | Total RMB'000 |
|---|-----------------|--|--|-----------------------------------|---|------------------|
| For the year ended | | | | | | |
| December 31, 2019 | | | | | | |
| Executive Directors | | | | | | |
| Mr. Zhang Zhangsun | - | 3,000 | - | - | - | 3,000 |
| Ms. Ruan Wenjuan | - | 2,948 | - | 50 | - | 2,998 |
| Ms. Zhang Jin | - | 2,651 | 219 | 35 | - | 2,905 |
| Ms. Ge Weiguang (resigned on May 28, 2019) | - | 864 | - | 23 | - | 887 |
| Mr. Lin Yaoquan (appointed on April 12, 2019) | - | 1,565 | 220 | 4 | - | 1,789 |
| Ms. Dong Xueer (appointed on June 14, 2019) | - | 640 | - | 23 | - | 663 |
| Mr. Li Bin (appointed on June 14, 2019) | - | 740 | - | 23 | - | 763 |
| Independent Non-Executive Directors | | | | | | |
| Mr. Luo Zhenbang | 319 | - | - | - | - | 319 |
| Mr. Lai Siming | 319 | - | - | - | - | 319 |
| Ms. Chen Jingru | 319 | - | - | - | - | 319 |
| | 957 | 12,408 | 439 | 158 | - | 13,962 |
| For the year ended | | | | | | |
| December 31, 2018 | | | | | | |
| Executive Directors | | | | | | |
| Mr. Zhang Zhangsun | - | 3,000 | - | - | - | 3,000 |
| Ms. Ruan Wenjuan | - | 3,035 | 100 | 55 | - | 3,190 |
| Ms. Zhang Jin | - | 1,880 | 355 | 35 | - | 2,270 |
| Mr. Ge Weiguang | - | 2,070 | 50 | 55 | - | 2,175 |
| Independent Non-Executive Directors | | | | | | |
| Mr. Luo Zhenbang | 308 | - | - | - | - | 308 |
| Mr. Lai Siming | 308 | - | - | - | - | 308 |
| Ms. Chen Jingru | 308 | - | - | - | - | 308 |
| | 924 | 9,985 | 505 | 145 | - | 11,559 |

Notes:

- (a) Mr. Zhang Zhangsun is the chief executive of the Company and his emoluments disclosed above include those for services rendered by him as the chief executive.
- (b) Ms. Ruan Wenjuan, Ms. Zhang Jin, Mr. Lin Yaoquan, Ms. Dong Xueer and Mr. Li Bin are the executive directors and vice presidents of the Company.

13. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (Continued)

Performances bonuses were determined by the management having regard to the performance of the directors and the Group's operating results.

The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group.

The independent non-executive directors' emoluments shown above were mainly for their services as directors of the Company.

No directors of the Company waived any emoluments in both years presented.

The five highest paid employees of the Group during the year included four directors (2018: four directors), details of whose remuneration are set out above. Details of the remuneration for the year of the remaining one (2018: one) highest paid employee who is neither a director nor chief executive of the Company are as follows:

| | Year ended December 31, | |
|-----------------------------|-------------------------|-----------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| Salaries and other benefits | 1,442 | 2,181 |
| Performance related bonuses | 182 | 475 |
| Retirement benefits | 53 | 5 |
| | 1,677 | 2,661 |

The number of the highest paid employees who are not directors of the Company whose remuneration fell within the following bands is as follows:

| | 2019 Number of employees | 2018 Number of employees |
|--------------------------------|--------------------------------|--------------------------------|
| Hong Kong dollars ("HK\$") | | |
| HK\$1,500,001 to HK\$2,000,000 | 1 | – |
| HK\$2,500,001 to HK\$3,000,000 | – | – |
| HK\$3,000,001 to HK\$3,500,000 | – | 1 |

During the year, no emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

Notes to the Consolidated Financial Statements

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14. INCOME TAX EXPENSE

| | Year ended December 31, | |
|---|-------------------------|-----------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| Current tax | | |
| – PRC enterprise income tax | 406,767 | 438,057 |
| – PRC dividend withholding income tax | 26,000 | 35,000 |
| – LAT | 322,589 | 477,559 |
| Under provision in respect of prior years | 80 | 242 |
| | 755,436 | 950,858 |
| Deferred tax (note 25) | 71,114 | 177,379 |
| Income tax expense | 826,550 | 1,128,237 |

Pursuant to the PRC Enterprise Income Tax Law promulgated on March 16, 2007, the PRC enterprise income tax for both domestic and foreign-invested enterprises has been unified at the income tax rate of 25% effective from January 1, 2008 onwards.

The provision of LAT is estimated according to the requirements set forth in the relevant PRC tax laws and regulations. LAT has been provided at ranges of progressive rates of the appreciation value, with certain allowable exemptions and deductions.

In accordance with the PRC tax circular (Guoshuihan [2008] 112) effective from January 1, 2008, the PRC withholding income tax at the rate of 10% is applicable to dividends to “non-resident” investors who do not have an establishment or business in the PRC. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to the undistributed profits earned by the PRC subsidiaries since January 1, 2008 amounting to RMB6,101,375,000 (2018: RMB5,552,764,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

14. INCOME TAX EXPENSE (Continued)

No provision for Hong Kong Profits Tax has been made as the income of the companies comprising the Group neither arises in, nor is derived from Hong Kong during both years.

The income tax expense for the year can be reconciled from the profit before tax per consolidated statement of profit or loss and other comprehensive income as follows:

| | Year ended December 31, | |
|---|-------------------------|-----------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| Profit before tax | 2,046,163 | 2,697,468 |
| Tax at PRC enterprise income tax rate of 25% | 511,541 | 674,367 |
| LAT | 322,589 | 477,559 |
| Tax effect of LAT | (80,647) | (119,390) |
| Tax effect of expenses not deductible for tax purpose | 14,442 | 51,395 |
| Tax effect of income not taxable for tax purpose | – | (30,313) |
| Tax effect of share of results of associates | 141 | 2,726 |
| Tax effect of share of results of joint ventures | 4,947 | 2,985 |
| Tax effect of tax losses not recognized | 29,705 | 35,324 |
| Utilization of tax loss previously not recognized | (2,248) | (1,658) |
| PRC dividend withholding income tax | 26,000 | 35,000 |
| Under provision in prior years | 80 | 242 |
| Income tax expense for the year | 826,550 | 1,128,237 |

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

15. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data.

| | Year ended December 31, | |
|--|-------------------------|-----------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| Earnings: | | |
| Profit for the year attributable to the owners of the Company for the purposes of basic and diluted earnings per share | 859,764 | 1,008,784 |

| | Year ended December 31, | |
|--|-------------------------|--------------|
| | 2019 '000 | 2018 '000 |
| Number of shares: | | |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | 4,444,418 | 4,444,285 |
| Effect of dilutive potential ordinary shares: | | |
| Share options issued by the Company | 4,022 | 19,761 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | 4,448,440 | 4,464,046 |

16. DIVIDENDS

| | Year ended December 31, | |
|--|-------------------------|-----------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| Dividends for ordinary shareholders of the Company recognized as distribution during the year: | | |
| 2018 Final – HK5.64 cents (2018: 2017 final dividend HK8.07 cents) per share | 220,000 | 300,000 |

Subsequent to the end of the reporting period, a final dividend in respect of the year ended December 31, 2019 of HK3.76 cents (2018: final dividend in respect of the year ended December 31, 2018 of 5.64 HK cents) per share, in an aggregate amount of HK\$167,110,000 (equivalent to RMB150,000,000) (2018: in an aggregate amount of HK\$250,665,000 (equivalent to RMB220,000,000)) has been proposed by the board of directors and is subject to approval by the shareholders of the Company at the forthcoming annual general meeting.

17. INVESTMENT PROPERTIES

The Group leases out various offices, shopping mall and retail stores under operating leases with rentals payable monthly. The leases typically run for an initial period of 1 to 20 years, with unilateral rights to extend the lease beyond initial period held by lessees only. Majority of the lease contracts contain market review clauses in the event the lessee exercises the option to extend.

The Group is not exposed to foreign currency risk as a result of the lease arrangements, as all leases are denominated in the respective functional currencies of group entities. The lease contracts do not contain residual value guarantee and/or lessee's option to purchase the property at the end of lease term.

| | Investment properties RMB'000 | Investment properties under construction RMB'000 | Total RMB'000 |
|--|-------------------------------------|--|------------------|
| Fair value | | | |
| At January 1, 2018 | 15,947,269 | 2,361,000 | 18,308,269 |
| Additions | – | 263,503 | 263,503 |
| Net increase in fair value recognized in profit or loss | 839,112 | 68,679 | 907,791 |
| Transfer from properties held for sale | 76,897 | – | 76,897 |
| Transfer to property, plant and equipment | (240,206) | – | (240,206) |
| Transfer from properties under development for sale | – | 228,818 | 228,818 |
| At December 31, 2018 | 16,623,072 | 2,922,000 | 19,545,072 |
| Additions | – | 403,306 | 403,306 |
| Net increase in fair value recognized in profit or loss | 792,672 | 268,694 | 1,061,366 |
| Transfer from properties held for sale | 140,256 | – | 140,256 |
| At December 31, 2019 | 17,556,000 | 3,594,000 | 21,150,000 |

The investment properties are all situated in the PRC. The fair value of the Group's investment properties, including the Group's property interests held under operating leases classified and accounted for as investment properties as at December 31, 2019 and 2018 have been arrived at on the basis of valuations carried out on those dates by Colliers International (Hong Kong) Ltd, a firm of independent qualified external valuer not connected with the Group, who have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations.

The valuations of investment properties are arrived at with adoption of direct comparison approach assuming sale of each of these properties in its existing state by making reference to comparable sales transactions as available in the relevant market and also consider income approach by undertaking an estimation of future cash flows and taking into account the time value of money. The income is projected over the investment cycle and the net income is calculated after the deduction of capital, operating, and other necessary expenses.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

17. INVESTMENT PROPERTIES (Continued)

Fair values of the investment properties under development for sale are generally derived using the residual method. This valuation method is essentially a means of valuing the land and building by reference to its development potential by deducting development costs together with developer's profit and risk from the estimated capital value of the proposed development assuming completed in accordance with the existing development plans as at the date of valuation, which duly reflected the risks associated with the development.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

The fair value of the Group's investment properties at December 31, 2019 and 2018 are grouped into Level 3 of fair value measurement. There were no transfers into or out of Level 3 during the both years.

The following table gives information about how the fair values of these investment properties are determined (in particular, inputs used). The Group considered multiple valuation techniques to the extent appropriate. A fair value measurement is usually the point within that range that is most representative of fair value in the circumstances.

| Investment Properties of the Group | Significant unobservable input(s) | | | |
|------------------------------------|-----------------------------------|-----------|-----------------|---------------------|
| | Capitalization | Discount | Monthly Unit | Unit Sale Rate |
| | Rate | Rate | Rent on GFA | RMB/sq.m. |
| | % | % | RMB/sq.m./day | RMB/sq.m. |
| | 2019 | 2019 | 2019 | 2019 |
| - Beijing Area | | | | |
| - Office | 4.25-4.50 | 7.00-7.50 | 6.4-11.6 | 42,000-85,000 |
| - Retail | 2.50-5.25 | 6.00-9.00 | 7.5-18.5 | 28,900-110,300 |
| - Car Parking Space | 3.50-4.25 | 4.50-5.25 | 1,000/lot/month | 318,300-324,000/lot |
| - Shantou Area | | | | |
| - Retail | 6.50 | 8.50 | 2.3 | 9,300 |
| - Shenyang Area | | | | |
| - Retail | 5.00 | 8.00-8.50 | 1.9-3.2 | 6,600-10,100 |
| - Haikou Area | | | | |
| - Office | 6.00 | 8.75 | 4.5 | 22,500 |

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17. INVESTMENT PROPERTIES (Continued)

| Investment Properties Under Construction | Capitalization Rate % 2019 | Discount Rate % 2019 | Monthly Unit Rent on GFA RMB/sq.m./day 2019 | Unit Sale Rate RMB/sq.m. 2019 | Outstanding Development Costs to Complete RMB million 2019 |
|--|----------------------------------|----------------------------|---|-------------------------------------|--|
| - Shenzhen Area | | | | | |
| - Office | 5.00 | 8.50 | 4.67 | - | 48 |
| - Foshan Area | | | | | |
| - Retail | 5.50 | 9.00 | 6.35 | 21,900 | 668 |
| - Car Parking Space | 5.50 | 9.00 | 570/lot/month | 10,400 | |
| - Handan Area | | | | | |
| - Retail | 6.50 | 9.00 | 2 | 5,800 | 319 |

| Investment Properties of the Group | Significant unobservable input(s) | | | |
|------------------------------------|-----------------------------------|----------------------------|---|-------------------------------------|
| Investment Properties | Capitalization Rate % 2018 | Discount Rate % 2018 | Monthly Unit Rent on GFA RMB/sq.m./day 2018 | Unit Sale Rate RMB/sq.m. 2018 |
| - Beijing Area | | | | |
| - Office | 4.25-4.50 | 7.00-7.50 | 6.1-11.6 | 36,500-82,000 |
| - Retail | 2.50-5.25 | 6.00-9.00 | 4.6-22.2 | 28,700-108,800 |
| - Car Parking Space | 3.50-4.25 | 4.50-5.25 | 950/lot/month | 310,800-385,000/lot |
| - Shantou Area | | | | |
| - Retail | 6.50 | 8.50 | General: 2.4 Large Tenant: 1.6 | 9,100 |
| - Shenyang Area | | | | |
| - Retail | 5.00 | 8.00-8.50 | 1.8-3.2 | 6,600-10,100 |
| - Haikou Area | | | | |
| - Office | 6.00 | 8.75 | 4.4 | 21,400 |

Notes to the Consolidated Financial Statements

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17. INVESTMENT PROPERTIES (Continued)

| Investment Properties Under Construction | Capitalization Rate % | Discount Rate % | Monthly Unit Rent on GFA RMB/sq.m./ day | Unit Sale Rate RMB/sq.m. | Outstanding Development Costs to Completion RMB'million |
|---|-----------------------------|-----------------------|--|-----------------------------|---|
| | 2018 | 2018 | 2018 | 2018 | 2018 |
| - Shenzhen Area | | | | | |
| - Office | 5.00 | 8.50 | 4.67 | - | 50 |
| - Foshan Area | | | | | |
| - Retail | 5.50 | 9.00 | 8.13 | 17,700 | 1,770 |
| - Car Parking Space | 5.50 | 9.00 | 571/lot/month | | |
| - Handan Area | | | | | |
| - Retail | 6.50 | 9.00 | 1.67 | 6,100 | 476 |

A slight increase in the discount rate used would result in a significant decrease in the fair value measurement of the investment properties, and vice versa. A slight increase in the capitalization rate used would result in a significant decrease in the fair value measurement of the investment properties, and vice versa. A slight increase in the market monthly unit rent on GFA used would result in a significant increase in the fair value measurement of the investment properties, and vice versa. An increase in the unit sale rate used would result in an increase in the fair value measurement of the investment properties by the same percentage increase, and vice versa. Increases in the development costs would result in a decrease in the fair value measurement of the investment properties by the same percentage increase, and vice versa. A significant increase in the expected development profit margin would result in a significant decrease in fair value, and vice versa.

In estimating the fair value of the investment properties, the Group uses market observable data to the extent it is available. The management works closely with the external valuer to establish the appropriate valuation techniques and inputs to the model.

The Group had pledged investment properties of approximately RMB18,606,400,000 (2018: RMB17,675,155,000) at December 31, 2019 to secure bank and trust borrowings granted to the Group as set out in note 46.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

18. PROPERTY, PLANT AND EQUIPMENT

| | Buildings RMB'000 | Construction in progress RMB'000 | Leasehold improvement RMB'000 | Motor vehicles RMB'000 | Electronic equipment and furniture RMB'000 | Total RMB'000 |
|--|----------------------|--|-------------------------------------|------------------------------|---|------------------|
| Cost | | | | | | |
| At January 1, 2018 | 654,064 | 139,675 | 89,625 | 68,485 | 28,943 | 980,792 |
| Additions | – | 633,151 | 19,039 | 3,258 | 5,303 | 660,751 |
| Acquired on acquisition of subsidiaries (note 44) | – | – | – | 7,375 | 1,712 | 9,087 |
| Transfer from investment properties | 240,206 | – | – | – | – | 240,206 |
| Disposals | – | – | – | (397) | (222) | (619) |
| Disposal of a subsidiary | – | – | – | – | (13) | (13) |
| At December 31, 2018 | 894,270 | 772,826 | 108,664 | 78,721 | 35,723 | 1,890,204 |
| Additions | 1,000 | 250,295 | 18,969 | 4,119 | 1,591 | 275,974 |
| Disposals | – | – | – | (4,371) | (648) | (5,019) |
| At December 31, 2019 | 895,270 | 1,023,121 | 127,633 | 78,469 | 36,666 | 2,161,159 |
| Depreciation | | | | | | |
| At January 1, 2018 | 18,437 | – | 53,459 | 43,098 | 15,540 | 130,534 |
| Provided for the year | 44,093 | – | 12,429 | 9,671 | 6,087 | 72,280 |
| Eliminated upon disposals | – | – | – | (47) | (216) | (263) |
| At December 31, 2018 | 62,530 | – | 65,888 | 52,722 | 21,411 | 202,551 |
| Provided for the year | 45,087 | – | 17,552 | 8,137 | 5,207 | 75,983 |
| Eliminated upon disposals | – | – | – | (2,640) | (600) | (3,240) |
| At December 31, 2019 | 107,617 | – | 83,440 | 58,219 | 26,018 | 275,294 |
| Carrying amounts | | | | | | |
| At December 31, 2019 | 787,653 | 1,023,121 | 44,193 | 20,250 | 10,648 | 1,885,865 |
| At December 31, 2018 | 831,740 | 772,826 | 42,776 | 25,999 | 14,312 | 1,687,653 |

As at December 31, 2019, buildings with carrying amount of approximately RMB784,730,000 (2018: RMB814,801,000) were pledged to banks to secure bank and trust borrowings granted to the Group as set out in note 46.

Notes to the Consolidated Financial Statements

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18. PROPERTY, PLANT AND EQUIPMENT (Continued)

The above items of property, plant and equipment, other than construction in progress, are depreciated using the straight-line method after taking into account of their estimated residual values over the following estimated useful lives:

| | |
|------------------------------------|---|
| Buildings | Over the shorter of the term of the lease or 20 years |
| Leasehold improvement | Over the shorter of the term of the lease or 5 years |
| Motor vehicles | 5 years |
| Electronic equipment and furniture | 5 years |

As at December 31, 2019, the Group was in the process of obtaining the certificates of land use rights of RMB544,918,000 (2018: RMB417,897,000) from the relevant authorities.

19. RIGHT-OF-USE ASSETS

| | Leasehold lands <i>RMB'000</i> | Leased properties <i>RMB'000</i> | Total <i>RMB'000</i> |
|--|--------------------------------------|--|-------------------------|
| Carrying amount | | | |
| As at January 1, 2019 | 281,501 | 1,127 | 282,628 |
| Additions to right-of-use assets | – | 4,054 | 4,054 |
| Depreciation charge | (6,035) | (823) | (6,858) |
| As at December 31, 2019 | 275,466 | 4,358 | 279,824 |
| Expense relating to short-term leases and other leases with lease terms end within 12 months of the date of initial application of IFRS 16 | | | 3,254 |
| Total cash outflow for leases | | | 4,069 |

In addition to the portfolio of short-term leases for office which are regularly entered into by the Group during the year ended 31 December 2019, the Group entered into several short-term leases for office. As at 31 December 2019, the outstanding lease commitments relating to these office is RMB2,326,000.

As at December 31, 2018, the Group had pledged the land-use-rights of approximately RMB274,650,000 to secure bank and trust borrowings granted to the Group as set out in note 46.

20. OTHER NON-CURRENT ASSETS

Other non-current assets of the Group comprise software licenses and payments for an urban redevelopment project and a village-in-city redevelopment project.

The software licenses have finite useful lives and are amortized on a straight-line basis over 6 years. As at December 31, 2019, the carrying amount of software licenses is RMB14,418,000 (2018: RMB14,545,000), which are made up of cost of RMB25,887,000 (2018: RMB23,484,000) and accumulated amortization of RMB11,469,000 (2018: RMB8,939,000).

The remaining balance of other non-current assets relates to the payments and costs described as below:

- (a) The Group acquired an urban redevelopment project during the year ended December 31, 2016 through the acquisition of a subsidiary, Shenzhen Dachaoshan, which entered into an agreement with an entity established by the local authority for an urban redevelopment project in Shenzhen. As at the acquisition date, Shenzhen Dachaoshan has made payments to acquire certain non-agricultural ratio and has the exclusive right to seek government approval for the commencement of the urban redevelopment project after achieving the minimal threshold of the non-agricultural ratio stipulated in the agreement. The urban redevelopment project includes several units and is intended to be developed in different phases. Shenzhen Dachaoshan has obtained approvals from the relevant government authorities in relation to the redevelopment of the first unit. The Directors are confident that Shenzhen Dachaoshan will be able to meet the non-agricultural ratio requirement for the rest of the units in the region and approvals from the relevant authorities will ultimately be obtained in the future. The recovery of the carrying amount will be through the returns to be generated from this urban redevelopment project of which the redevelopment right will be granted exclusively to Shenzhen Dachaoshan upon approval. As at December 31, 2019, the carrying amount of this non-current asset is RMB1,225,327,000 (2018: RMB1,067,712,000).
- (b) The Group acquired a village-in-city redevelopment project in the year of 2018 through acquisition of a subsidiary, Shijiazhuang Guosha Real Estate Development Co., Ltd. 石家莊國慶房地產開發有限公司 (“**Shijiazhuang Guosha**”). Shijiazhuang Guosha entered into a collaborative agreement with local government in Shijiazhuang. The local government has the responsibility to provide collective land, while Shijiazhuang Guosha is responsible for financial contribution of construction. As at the acquisition date, Shijiazhuang Guosha has made payments to the project and acquired land use right for one piece of land which was accounted for as properties under development for sale. The remaining balance of advance payment for those land use right and the development right of land are accounted for as other non-current assets.

The Directors are confident that Shijiazhuang Guosha will be able to acquire the land use right for property development. The prepayments will be recovered through return from sale of commodity housings. As at December 31, 2019, the carrying amount of the non-current assets is RMB327,000,000 (2018: RMB327,000,000).

Details of the acquisitions are set out in note 44.

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21. INTERESTS IN JOINT VENTURES

| | At December 31, | |
|--------------------------------------|-----------------|-----------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| Cost of investment in joint ventures | 61,000 | 35,500 |
| Share of post-acquisition losses | (30,911) | (11,125) |
| | 30,089 | 24,375 |

Details of each of the Group's joint ventures at the end of the reporting period are as follows:

| Name of entity | Place of establishment and operation | Proportion of ownership interest held by the Group | | Proportion of voting rights held by the Group | | Principal activity |
|---|--------------------------------------|--|-------|---|-------|----------------------|
| | | 2019 | 2018 | 2019 | 2018 | |
| Beijing Maorui Properties Co., Ltd. ("Maorui Zhiye") 北京茂瑞置業有限公司 | PRC | 20% | 20% | 20% | 20% | Property development |
| Beijing Ruimao Zhiye Co., Ltd. ("Ruimao Real Estate") 北京瑞茂房地產開發有限公司 | PRC | 51% | 25.5% | 51% | 25.5% | Property development |

Note: The Group holds 20% (2018: 20%) of the registered capital of Maorui Zhiye and 51% (2018: 25.5%) of the registered capital of Ruimao Real Estate. The relevant activities of both investees require the unanimous consent of the parties sharing control. Accordingly, both entities are classified as joint ventures of the Group.

Aggregate information of joint ventures that are not individually material

| | Year ended December 31, | |
|--|-------------------------|-----------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| The Group's share of loss and total comprehensive expense | (19,786) | (11,939) |
| Aggregate carrying amount of the Group's interests in these joint ventures | 30,089 | 24,375 |

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For the year ended December 31, 2019

22. INTERESTS IN ASSOCIATES

| | At December 31, | |
|----------------------------------|-----------------|-----------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| Cost of investment in associates | 12,000 | 7,000 |
| Share of post-acquisition losses | (7,000) | (6,435) |
| | 5,000 | 565 |

Details of the Group's associates at the end of reporting period are as follow:

| Name of entity | Place of establishment and operation | Proportion of ownership interest by the Group | | Proportion of voting rights held by the Group | | Principal activity |
|---|--------------------------------------|---|------|---|------|----------------------|
| | | 2019 | 2018 | 2019 | 2018 | |
| Wuxi Glory Real Estate Development Co., Ltd. ("Wuxi Glory") (note 45) 無錫國瑞房地產開發有限公司 | PRC | 49% | 49% | 49% | 49% | Property development |
| Beijing Ruida Properties Co., Ltd. ("Ruida Zhiye") 北京銳達置業有限公司 | PRC | 35% | 35% | 35% | 35% | Property development |
| Guangzhou Fangyuan Xingyao Investment Co., Ltd. ("Fangyuan Xingyao") 廣州市方圓星耀投資有限公司 | PRC | 47.62% | N/A | 47.62% | N/A | Property development |

Notes to the Consolidated Financial Statements

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22. INTERESTS IN ASSOCIATES (Continued)

Aggregate information of associates that are not individually material

| | Year ended December 31, | |
|--|-------------------------|-----------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| The Group's share of loss and total comprehensive expense | (565) | (10,905) |
| Aggregate carrying amount of the Group's interests in these associates | 5,000 | 565 |

23. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

| | Year ended December 31, | |
|---|-------------------------|-----------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| Unlisted investments: – Equity securities (Note) | 32,400 | 220,307 |

Note:

The above unlisted equity securities represent the Group's equity interest in private entities: (1) 0.15% (2018: 1.23%) equity interest in Bohai Life Ltd. 渤海人壽保險股份有限公司 (“**Bohai Life Limited**”), a private entity established in the PRC which is principally engaged in insurance business, with a carrying amount of RMB27,400,000, and (2) 10% (2018: 10%) equity interest in Yongqing Jiyin Rural Bank Co., Ltd. 永清吉銀村鎮銀行股份有限公司 (“**Yongqing Jiyin Rural Bank**”), a private entity established in the PRC which is principally engaged in banking operation, with a carrying amount of RMB5,000,000.

In the current year, the Group disposed 1.08% equity interest in Bohai Life Limited, at a consideration of RMB191,800,000, which was also the fair value as at the date of disposal as the investment no longer meets the investment objective of the Group after group restructuring carried out by the investee. A cumulative fair value gain of RMB38,426,000 has been transferred to retained earnings, of which RMB34,968,000 is attribute to the owners of the Company.

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24. PREPAID LEASE PAYMENTS

| | At December 31, 2018 RMB'000 |
|-------------------------------------|------------------------------------|
| Prepaid lease payments | 281,501 |
| Analyzed for reporting purposes as: | |
| Non-current | 275,466 |
| Current | 6,035 |
| | 281,501 |

Prepaid lease payments are made for land use right in the PRC.

As at December 31, 2018, the Group had pledged the land use rights of approximately RMB278,637,000 to secure bank and trust borrowings granted to the Group as set out in note 46.

25. DEFERRED TAXATION

The following are the major deferred tax assets (liabilities) recognized and movements thereon during the current and prior years:

| | Tax losses RMB'000 | Temporary differences on sale deposits received RMB'000 | LAT RMB'000 | Fair value gain on properties RMB'000 | Fair value change on equity instruments at FVTOCI RMB'000 | Revaluation arising from business combination RMB'000 | Others RMB'000 (Note) | Total RMB'000 |
|--|-----------------------|--|----------------|--|--|---|-----------------------------|------------------|
| At January 1, 2018 | 90,161 | 82,759 | 361,678 | (2,559,228) | (16,177) | - | 3,440 | (2,037,367) |
| Credited (charged) to profit or loss | 55,037 | 68,481 | 25,044 | (311,767) | - | - | (14,174) | (177,379) |
| Credit to other comprehensive income | - | - | - | - | 2,398 | - | - | 2,398 |
| Acquisition of subsidiaries | - | - | - | - | - | (1,117,491) | - | (1,117,491) |
| At December 31, 2018 | 145,198 | 151,240 | 386,722 | (2,870,995) | (13,779) | (1,117,491) | (10,734) | (3,329,839) |
| Credited (charged) to profit or loss | 1,982 | 234,151 | (63,279) | (277,323) | - | 43,357 | (10,002) | (71,114) |
| Credit to other comprehensive income | - | - | - | - | (973) | - | - | (973) |
| Released upon disposal of equity instruments at FVTOCI | - | - | - | - | 12,809 | - | - | 12,809 |
| At December 31, 2019 | 147,180 | 385,391 | 323,443 | (3,148,318) | (1,943) | (1,074,134) | (20,736) | (3,389,117) |

Note: The "others" mainly relates to temporary differences on sales commission, exceeding advertising fee and exceeding donation.

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For the year ended December 31, 2019

25. DEFERRED TAXATION (Continued)

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for the financial reporting purpose:

| | At December 31, | |
|--------------------------|--------------------|-----------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| Deferred tax assets | 536,185 | 510,513 |
| Deferred tax liabilities | (3,925,302) | (3,840,352) |
| | (3,389,117) | (3,329,839) |

No deferred taxation asset has been recognized in respect of the following unutilized tax losses due to the unpredictability of future profit streams, estimated at the end of the reporting period. The unrecognized tax losses will expire in the following years:

| | At December 31, | |
|---|-----------------|-----------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| To be expired on: | | |
| December 31, 2019 | – | 55,572 |
| December 31, 2020 | 33,840 | 37,813 |
| December 31, 2021 | 41,436 | 41,436 |
| December 31, 2022 | 68,772 | 73,789 |
| December 31, 2023 | 141,295 | 141,295 |
| December 31, 2024 | 118,820 | – |
| Total unused tax losses not recognized as deferred tax assets | 404,163 | 349,905 |

26. DEPOSITS PAID FOR ACQUISITION OF LAND

The amounts represent deposits paid for public tenders, auctions or listing-for-bidding of land use rights in the PRC for the purpose of development for sale.

27. PROPERTIES UNDER DEVELOPMENT FOR SALE AND PROPERTIES HELD FOR SALE

| | At December 31, | |
|---------------------------------------|-------------------|-----------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| Properties under development for sale | 37,333,243 | 36,371,398 |
| Properties held for sale | 5,361,690 | 4,372,328 |
| | 42,694,933 | 40,743,726 |

The properties under development for sale are located in the PRC.

As at December 31, 2019, certain of the Group's properties under development for sale with a carrying amount of approximately RMB16,470,513,000 (2018: RMB15,378,746,000) was pledged to secure bank and trust borrowings granted to the Group as set out in note 46.

Effective from January 1, 2019, the carrying amount of leasehold lands is measured under IFRS 16 at cost less any accumulated depreciation and any impairment losses. The residual values are determined as the estimated disposal value of the leasehold land component. No depreciation charge is made on the leasehold lands taking into account the estimated residual values as at December 31, 2019.

In the opinion of the Directors, properties under development for sale with carrying amount of approximately RMB26,185,289,000 (2018: RMB24,871,448,000) as at December 31, 2019 are expected to be completed and realized after twelve months from the end of the reporting period.

As at December 31, 2019, the Group was in the process of obtaining the certificates of land use rights of RMB466,120,000 (2018: RMB278,164,000) from the relevant authorities.

The Group's properties held for sale are stated at the lower of cost and net realizable value and situated in the PRC. In the opinion of the Directors, properties held for sale of approximately RMB257,893,000 (2018: RMB849,684,000) as at December 31, 2019 are expected to be sold after twelve months from the end of the reporting period.

As at December 31, 2019, properties held for sale of approximately RMB748,090,000 (2018: RMB473,279,000) were pledged to secure bank and trust borrowings granted to the Group as set out in note 46.

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For the year ended December 31, 2019

28. JOINT OPERATION

On September 1, 2009, Glory Xingye (Beijing) Real Estate Co., Ltd 北京國瑞興業地產股份有限公司 (“**Original Beijing Glory**”) entered into an agreement with an independent third party (the “**Project Partner**”) in respect of a joint development project of Qinian Street Rebuild Primary Land Development Project in the PRC (the “**Qinian Street Project**”).

Pursuant to the agreement, Original Beijing Glory and the Project Partner set up an operation committee to exercise joint control and manage the project together. The two parties contribute the funding, share revenue and bear costs equally.

The amount included in the consolidated financial statements arising from the joint operation is as follows:

| | Year ended December 31, | |
|----------------------------|-------------------------|-----------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| Analysis of profit or loss | | |
| Revenue | 206,262 | 156,451 |
| Cost of sales and services | (203,065) | (154,025) |
| Profit before tax | 3,197 | 2,426 |

The details of the assets arising from the joint operation are set out in note 30.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

29. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

Pursuant to the lease agreements, lease payment is required to be settled in advance with no credit period being granted to the tenants. In respect of sales of properties, a credit period of six to twelve months may be granted to specific customers on a case-by-case basis.

| | At December 31, | |
|--|-----------------|-----------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| Trade receivables | | |
| – Contracts with customers | 532,502 | 388,682 |
| – Lease receivables | 128,176 | 78,052 |
| | 660,678 | 466,734 |
| Less: Allowance for credit losses | (5,503) | (3,027) |
| Trade receivables | 655,175 | 463,707 |
| Advances to contractors and suppliers | 868,418 | 586,337 |
| Other receivables from independent third parties | 17,261 | 17,261 |
| Other receivables and prepayments, net of allowance (Note) | 1,028,696 | 336,227 |
| Deposits | 247,108 | 886,913 |
| | 2,161,483 | 1,826,738 |
| Less: Allowance for credit losses | (4,937) | – |
| Other receivables | 2,156,546 | 1,826,738 |
| Total trade and other receivables | 2,811,721 | 2,290,445 |

Note: Other receivables from independent third parties are of non-trade nature, unsecured, interest-free and repayable on demand other than the balance of RMB151,000,000.

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29. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (Continued)

As at January 1, 2018, trade receivables from contracts with customers amounted to RMB407,315,000.

The following is an aging analysis of trade receivables net of allowance for credit losses presented based on the date of recognition of revenue at the end of the reporting period:

| | At December 31, | |
|-----------------|-----------------|-----------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| 0 to 60 days | 164,361 | 244,145 |
| 61 to 180 days | 23,197 | 65,626 |
| 181 to 365 days | 222,847 | 83,568 |
| 1 to 2 years | 208,914 | 61,359 |
| Over 2 years | 41,359 | 12,036 |
| | 660,678 | 466,734 |

As at December 31, 2019, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB188,907,000 which are past due as at the reporting date. Out of the past due balances, RMB66,228,000 has been past due over 90 days and is not considered as default based on the consideration the fact that legal title of the properties sold have not been transferred to the customer.

Details of impairment assessment of trade and other receivables are set out in note 51.

30. CONTRACT ASSETS

| | At December 31, | |
|---------------------------------------|------------------|-----------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| Construction and development services | 1,389,582 | 1,176,365 |
| Property sales | 52,552 | 47,205 |
| | 1,442,134 | 1,223,570 |

As at January 1, 2018, contract assets amounted to RMB1,254,674,000.

The contract assets primarily relate to the Group's right to consideration for work completed and not billed because the rights are conditioned on the Group's future performance. The contract assets are transferred to trade receivables when the rights become unconditional.

All Contract assets are expected to be settled within the Group's normal operating cycle, and are classified as current.

Details of payment terms of construction and development services and property sales contracts are set out in note 5.

The increase (2018: increase) in the current year is the result of the increase in ongoing development of primary land development construction and development services during the year as detailed in note 28 (2018: increase in ongoing development of primary land development construction and development services).

Details of the impairment assessment are set out in note 51.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

31. CONTRACT COSTS

| | At December 31, | |
|---------------------------------------|-----------------|-----------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| Incremental costs to obtain contracts | 76,919 | 36,321 |

Note: Contract costs capitalized as at December 31, 2019 and 2018 relate to the incremental sales commissions paid to property agents whose selling activities resulted in customers entering into sale and purchase agreements for the Group's properties which are still under construction at the reporting date. Contract costs are recognized as part of cost of sales in the consolidated statement of profit or loss in the period in which revenue from the related property sales is recognized. The amount of capitalized costs recognized in profit or loss during the year was RMB8,200,000 (2018: Nil). There was no impairment in relation to the opening balance of capitalized costs or the costs capitalized during the year (2018: Nil).

The Group applies the practical expedient and recognizes the incremental costs of obtaining contracts relating to the sale of completed properties and services as an expense when incurred if the amortization period of the assets that the Group otherwise would have recognized is one year or less.

32. RESTRICTED BANK DEPOSITS

| | At December 31, | |
|--|------------------|-----------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| Deposits pledged for banking facilities (<i>Note (a)</i>) | 250,006 | 11 |
| Restricted bank deposits (<i>Note (b)</i>) | 1,253,953 | 726,342 |
| Deposits pledged for mortgage loans granted to customers (<i>Note (c)</i>) | 175,271 | 215,778 |
| | 1,679,230 | 942,131 |
| Analysed for reporting purposes as: | | |
| Non-current (<i>Note (d)</i>) | 719,615 | 462,980 |
| Current | 959,615 | 479,151 |
| | 1,679,230 | 942,131 |

Notes:

- (a) The amounts represent bank deposits denominated in RMB pledged to banks as security for certain banking facilities granted to the Group and disclosed in note 46.
- (b) The amounts represent bank deposits for construction of pre-sale properties. In accordance with relevant government requirements, certain property development subsidiaries of the Group are required to place in designated bank accounts certain amount of pre-sale proceeds as guarantee deposits for the construction of the relevant properties. The deposits can only be used for payments for construction costs of the relevant properties when approval from related government authority is obtained.

32. RESTRICTED BANK DEPOSITS (Continued)

Notes: (Continued)

- (c) The amounts represent bank deposits pledged to banks as security for certain mortgage loans granted by the banks to the Group's customers. The pledged bank deposits will be released upon receiving the building ownership certificate of the respective properties by the banks from the customers as security of the mortgage loans granted.
- (d) Deposits pledged as security for mortgage loans of the Group's customers and restricted bank deposits that are not expected to be released within twelve months after the end of the reporting period are classified as non-current assets.

Details of impairment assessment of restricted bank deposits are set out in note 51.

The bank deposits carry prevailing market interest rates as follows:

| | 2019 | 2018 |
|----------------------------------|------------|------------|
| Range of interest rate per annum | 0.3%-2.75% | 0.3%-3.25% |

33. BANK BALANCES AND CASH

| | At December 31, | |
|------------------------|-----------------|-----------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| Bank balances and cash | 536,926 | 1,030,143 |

Cash and cash equivalents comprise bank balances and cash held by the Group.

The bank balances carry interest rates as follows:

| | 2019 | 2018 |
|----------------------------------|-----------|-----------|
| Range of interest rate per annum | 0.3%-2.5% | 0.3%-3.8% |

Bank balances and cash as at December 31, 2019 were denominated in RMB, United States Dollar ("USD") and Hong Kong Dollar ("HK\$"), and RMB is not a freely convertible currency in the international market. The exchange rate of RMB is determined by the government of the PRC and the remittance of these funds out of the PRC is subject to exchange restrictions imposed by the government of the PRC.

For the year ended December 31, 2019, the Group performed impairment assessment on bank balances and concluded that the probability of defaults of the counterparty banks are insignificant and accordingly, no allowance for credit losses is provided.

Notes to the Consolidated Financial Statements

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34. TRADE AND OTHER PAYABLES

| | At December 31, | |
|---|------------------|-----------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| Trade payables | 4,747,785 | 4,294,422 |
| Deposits received | 316,334 | 450,352 |
| Rental received in advance | 78,184 | 58,650 |
| Payable for acquisition of partial interest in a subsidiary | – | 12,000 |
| Accrued payroll | 35,067 | 54,460 |
| Business and other tax payable | 351,073 | 333,240 |
| Other payables and accruals | 864,494 | 1,510,203 |
| Accrued penalty | 28,968 | – |
| Dividends | 139,500 | 150,000 |
| | 6,561,405 | 6,863,327 |
| Analyzed for reporting purposes as: | | |
| Non-current (Note) | 122,063 | 106,312 |
| Current | 6,439,342 | 6,757,015 |
| | 6,561,405 | 6,863,327 |

Note: Pursuant to the relevant agreements, rental deposits received of approximately RMB122,063,000 (2018: RMB106,312,000) as at December 31, 2019 are to be settled after twelve months from the end of the reporting period and is therefore classified as non-current liabilities.

Trade payables comprise construction costs payable and other project-related expenses payable. The average credit period of trade payable is 180 days.

The following is an aging analysis of trade payables based on invoice date at the end of the reporting period:

| | At December 31, | |
|--------------|------------------|-----------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| 0 to 60 days | 2,245,265 | 2,071,849 |
| 61-365 days | 1,090,171 | 728,126 |
| 1-2 years | 560,797 | 520,522 |
| Over 2 years | 851,552 | 973,925 |
| | 4,747,785 | 4,294,422 |

35. CONTRACT LIABILITIES

| | At December 31, | |
|----------------|-------------------------|-------------------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| Property sales | 17,332,702 [^] | 11,208,252 [^] |

[^] Included in the contract liabilities was an amount of RMB996,853,000 (2018: RMB1,513,113,000) of which the Group has entered into directional agreement with the customers as at December 31, 2019.

All contract liabilities are expected to be settled within the Group's normal operating cycle, and are classified as current.

As at January 1, 2018, contract liabilities amounted to RMB3,380,371,000.

The following table shows how much of the revenue recognized in the current year relates to carried-forward contract liabilities.

| | Sales of properties At December 31, | |
|---|--|-----------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| Revenue recognized that was included in the contract liabilities balance at the beginning of the year | 3,024,351 | 780,011 |

The deposits and advance payment received were recognized as contract liabilities throughout the property construction period until the customer obtains control of the completed property.

The Group receives 10% to 20% of the contract value as deposits from customers when they sign the sale and purchase agreement. However, depending on market conditions, the Group may offer customers a discount compared to the listed sales price, provided that the customers agree to pay the balance of the consideration early while construction is still ongoing. The deposits and advance payment schemes result in contract liabilities being recognized throughout the property construction period until the customer obtains control of the completed property.

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36. TAX PAYABLE

| | At December 31, | |
|--------------------|------------------|-----------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| LAT payable | 1,543,169 | 1,666,300 |
| Income tax payable | 1,404,975 | 1,207,775 |
| | 2,948,144 | 2,874,075 |

37. LEASE LIABILITIES

| | At December 31, 2019 RMB'000 |
|--|------------------------------------|
| Lease liabilities payable: | |
| Within one year | 1,600 |
| Within a period of more than one year but not more than two years | 1,734 |
| Within a period of more than two years but not more than five years | 1,240 |
| | 4,574 |
| Less: Amount due for settlement with 12 months shown under current liabilities | (1,600) |
| Amount due for settlement after 12 months shown under non-current liabilities | 2,974 |

38. BANK AND TRUST BORROWINGS

| | At December 31, | |
|--|--------------------|-----------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| Bank borrowings, secured | 15,738,489 | 13,968,042 |
| Trust borrowings, secured | 4,400,160 | 8,292,132 |
| Loans from financial institutions, secured | 1,927,955 | 1,038,810 |
| | 22,066,604 | 23,298,984 |
| The borrowings are due to be repayable (<i>Note</i>): | | |
| On demand and within one year | 6,317,710 | 9,037,963 |
| More than one year, but not exceeding two years | 3,862,640 | 4,645,161 |
| More than two years, but not exceeding five years | 4,999,286 | 3,167,987 |
| More than five years | 6,886,968 | 6,447,873 |
| | 22,066,604 | 23,298,984 |
| Less: Amount due within one year shown under current liabilities | (6,317,710) | (9,037,963) |
| Amount shown under non-current liabilities | 15,748,894 | 14,261,021 |

Note: The amounts due are based on scheduled repayment dates set out in the loan agreements.

The Group's bank and trust borrowings are all denominated in RMB. Details of assets that have been pledged to secure bank and trust borrowings are set out in note 46.

Borrowings of approximately RMB9,594,057,000 (2018: RMB8,770,342,000), bearing interest at variable rate ranging from 4.75% to 10.00% (2018: 4.75% to 8.50%) per annum as at December 31, 2019 exposed the Group to cash flow interest rate risk. The remaining borrowings, bearing interest at fixed rate, ranging from 4.75% to 13.00% (2018: 4.75% to 12.00%) per annum as at December 31, 2019, exposed the Group to fair value interest rate risk.

In July 2018, Suzhou Glory Real Estate Co., Ltd. 蘇州國瑞地產有限公司 ("Suzhou Glory") entered into a trust loan agreement with China Minsheng Trust Co., Ltd 中国民生信托有限公司 ("Mingsheng Trust"), in which the total credit facility granted is RMB1,500,000,000 bearing interest at 10.5% per annum. The loan is secured by land use rights in properties under development of Suzhou Glory and secured by 15% equity interest of Suzhou Glory. Besides the security, the loan is also guaranteed by Garden Group, Longhu Huamu and Mr. Zhang Zhangsun. These loans were fully settled in 2019.

In June 2018, New Beijing Glory and Suzhou Glory, subsidiaries of the Company, entered into a triparty agreement with Mingsheng Trust. Pursuant to the agreement, the loan of RMB42,500,000 was provided by Mingsheng Trust as capital injection to Suzhou Glory, a subsidiary of New Beijing Glory. Upon receipt of the cash contribution, New Beijing Glory and Mingsheng Trust held 15.00% and 85.00% interests in Suzhou Glory, respectively.

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38. BANK AND TRUST BORROWINGS (Continued)

In the opinion of the Directors, the loan is to finance the construction of the properties under development of Suzhou Glory; and the relevant investment agreement required: (i) New Beijing Glory is obliged to repurchased remaining 85.00% shares of Suzhou Glory transferred to Mingsheng Trust with a cash consideration of RMB42,500,000 on 13 July 2019; (ii) Mingsheng Trust does not have any influence over Suzhou Glory or undertake any risk of investment, but only entitled to a fixed interest rate at 10.50% per annum which should be paid quarterly during the 12 months of investment period. In the opinion of the Directors, the arrangement is in substance a financing arrangement from Mingsheng Trust. The Group classified the above loan as a financial liability, and continues to consolidate all results as if Suzhou Glory is a wholly-owned subsidiary of the Group. These loans were fully settled in November 2019 and Mingsheng Trust has transferred the 85.00% shares of Suzhou Glory to New Beijing Glory.

Set out below were the details of the secured entrusted bank borrowings and trust borrowings:

| Borrowers | Lenders | Original withdrawn amount | | Loan period | Interest rate | Carrying amount | | Trustee | |
|--|------------------------------------|---------------------------|----------------------|-------------------------------|---------------|----------------------|----------------------|---------------------------------|--|
| | | At | At | | | At | At | | |
| | | December 31, 2019 | December 31, 2018 | | | December 31, 2019 | December 31, 2018 | | |
| | | RMB'000 | RMB'000 | | % per annum | RMB'000 | RMB'000 | | |
| - Entrusted bank borrowings | | | | | | | | | |
| Glory Xingye (Beijing) Investment Co., Ltd 國瑞興業(北京)投資有限公司 ("Glory Investment") | Bosera Capital Management Co., Ltd | - | 1,880,000 | January 2017 to January 2019 | 6.50 | - | 180,000 | China Bohai Bank Beijing Branch | |
| Foshan Guohua Properties Co., Ltd. 佛山市國華置業有限公司 ("Foshan Guohua") | Essence Securities Co., Ltd | 1,650,000 | 1,650,000 | May 2017 to May 2020 | 7.15 | 989,833 | 1,650,000 | Bank of Tianjin Beijing Branch | |
| Subtotal | | 1,650,000 | 3,530,000 | | | 989,833 | 1,830,000 | | |
| - Trust borrowings | | | | | | | | | |
| Suzhou Glory | Minsheng Trust | - | 1,357,500 | July 2018 to November 2019 | 10.50 | - | 1,346,889 | - | |
| Suzhou Glory | Minsheng Trust | - | 42,500 | July 2018 to July 2019 | 10.50 | - | 42,243 | - | |
| Beijing Deheng Real Estate Development Co., Ltd 北京國瑞德恒房地產開發有限公司 ("Beijing Deheng")* | Chongqing International Trust Inc. | 2,280,000 | 2,280,000 | July 2017 to July 2020 | 8.27 | 907,885 | 2,280,000 | - | |
| Langfang Guoxing Real Estate Development Co., Ltd 廊坊國興房地產開發有限公司 ("Langfang Guoxing") | China Credit Trust Co., Ltd. | - | 1,080,000 | August 2017 to August 2019 | 8.25 - 8.75 | - | 780,000 | - | |
| Original Beijing Glory | Western Trust Co., Ltd | 4,110,000 | 4,110,000 | October 2018 to November 2036 | 8.48 | 3,492,275 | 3,843,000 | - | |
| Subtotal | | 6,390,000 | 8,870,000 | | | 4,400,160 | 8,292,132 | | |

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

38. BANK AND TRUST BORROWINGS (Continued)

| Borrowers | Lenders | Original withdrawn amount | | Loan period | Interest rate | Carrying amount | | Trustee |
|--|--|---------------------------------------|---------------------------------------|--------------------------------|---------------|---------------------------------------|---------------------------------------|---------|
| | | At December 31, 2019 RMB'000 | At December 31, 2018 RMB'000 | | | At December 31, 2019 RMB'000 | At December 31, 2018 RMB'000 | |
| - Financial institutions borrowings | | | | | | | | |
| Original Beijing Glory | China Huarong Asset Management Co.,Ltd | 1,038,810 | 1,038,810 | January 2018 to December 2020 | 12.00 | 422,431 | 1,038,810 | - |
| New Beijing Glory | China Huarong Asset Management Co.,Ltd | 564,000 | - | March 2019 to May 2022 | 13.00 | 566,240 | - | - |
| Foshan Guohua | China Huarong Asset Management Co.,Ltd | 391,000 | - | November 2019 to November 2022 | 12.00 | 392,434 | - | - |
| Guangdong Guosha Real Estate Co., Ltd. 廣東國廈地產有限公司("Guangdong Guosha") | China Huarong Asset Management Co.,Ltd | 465,000 | - | August 2019 to August 2022 | 12.00 | 466,694 | - | - |
| Shenzhen Glory Xingye Culture Development Co., Ltd. | Shenzhen Hi-Tech Investment Small Loan Co., Ltd. | 30,000 | - | April 2019 to April 2020 | 8.50 | 20,065 | - | - |
| Shenzhen Tadpole Technology Application Co., Ltd. | Shenzhen Hi-Tech Investment Small Loan Co., Ltd. | 35,000 | - | April 2019 to April 2020 | 8.50 | 25,000 | - | - |
| Shenzhen Glory Construction Engineering Co., Ltd. | Shenzhen Hi-Tech Investment Small Loan Co., Ltd. | 35,000 | - | April 2019 to April 2020 | 8.50 | 35,091 | - | - |
| Subtotal | | 2,558,810 | 1,038,810 | | | 1,927,955 | 1,038,810 | |
| Total | | 10,598,810 | 13,438,810 | | | 7,317,948 | 11,160,942 | |

* In August 2019, New Beijing Glory, Beijing Deheng, subsidiaries of the Company, entered into a triparty agreement with Chongqing International Trust Inc. to extend the maturity date of the loan of RMB2,280,000,000 from July 2019 to July 2020. Pursuant to the agreement, New Beijing Glory and Beijing Deheng agreed to amended the interest rate of loan from 8.00% to 8.27%.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

39. CORPORATE BONDS

(a) Corporate bonds issued in 2015 (the “2015 Corporate Bonds”)

On November 11, 2015, Garden Group, a wholly-owned subsidiary of the Company, has issued its first tranche of domestic corporate bonds to the public in the PRC (“**First Tranche Issue**”) with a principal amount of RMB2,000,000,000, bearing interest at the coupon rate of 7.25% per annum, payable annually, and has a term of 5 years. On December 22, 2015, Garden Group has issued the second tranche of domestic corporate bonds to the public in the PRC (“**Second Tranche Issue**”) with a principal amount of RMB1,000,000,000, bearing interest at the coupon rate of 7.47% per annum, payable annually, and has a term of 5 years.

According to the terms and conditions of the 2015 Corporate Bonds, Garden Group has the right to adjust and not adjust the coupon rate for the fourth and fifth year at the end of the third year, by giving a 30-day notice to the bondholder before November 10 and December 21, 2018 respectively. At the same time, the bondholder may at its option require Garden Group to redeem the bond at a redemption price equal to 100% of the principal plus accrued interest to such redemption date. The remaining bond will be subject to the adjusted interest rate until the maturity date. The effective interest rate of the First Tranche Issue and Second Tranche Issue of 2015 Corporate Bonds is approximately 7.61% and 7.64% per annum after the adjustment for transaction costs.

In 2018, principal amount of First Tranche Issue and Second Tranche Issue amounting to RMB1,945,650,000 and RMB999,680,000 respectively were redeemed by the bondholders. The maturity date of the remaining 2015 Corporate Bonds is November 10 and December 21, 2020 respectively.

On June 28, 2019, the remaining Second Tranche Issue amounting to RMB320,000 was redeemed by Garden Group.

The carrying amount and related interest of 2015 Corporate Bonds are amounting to approximately RMB54,350,000 (December 31, 2018: RMB54,670,000) and RMB551,000 (December 31, 2018: RMB551,000) as at December 31, 2019.

(b) Corporate bonds issued in 2016 (the “2016 Corporate Bonds”)

On September 22, 2016, Garden Group issued its first tranche of domestic corporate bonds through non-public offering in the PRC (“**First Tranche Non-public Issue**”) with a principal amount of RMB1,000,000,000, bearing interest at the coupon rate of 5.3% per annum, payable annually, and has a term of 5 years. The 2016 Corporate Bonds are secured by certain investment properties of the Group.

According to the terms and conditions of the 2016 Corporate Bonds, Garden Group has the right to adjust and not adjust the coupon rate for the fourth and fifth year at the end of the third year, by giving a 30-day notice to the bondholder before September 21, 2019. At the same time, the bondholder may at its option require Garden Group to redeem the bond at a redemption price equal to 100% of the principal plus accrued interest to such redemption date. The remaining bond will be subject to the adjusted interest rate until the maturity date. The effective interest rate of the 2016 Corporate Bonds is approximately 5.47% per annum after the adjustment for transaction costs.

39. CORPORATE BONDS (Continued)

(b) Corporate bonds issued in 2016 (the “2016 Corporate Bonds”) (Continued)

In 2019, Garden Group has adjusted the coupon rate from 5.30% to 8.50% for the fourth and fifth year at the end of the third year. 2016 Corporate Bonds with principal amounting to RMB500,000,000 was redeemed by the Garden Group and sold to Shantou Glory Management Co., Ltd. 汕頭企業管理有限公司 (“**Shantou Glory**”), which were both the wholly owned subsidiaries of the company. The maturity date of the remaining 2016 Corporate Bond is September 22, 2021.

The carrying amounts and related interest of 2016 Corporate Bonds are amounting to approximately RMB500,000,000 (December 31, 2018: RMB998,765,000) and RMB10,886,000 (December 31, 2018: RMB13,504,000) as at December 31, 2019.

For the purpose of presentation in the consolidated statement of financial position, the 2016 Corporate Bonds held by Shantou Glory have been offset. The following is the analysis of the 2016 Corporate Bonds in issues as at the end of the reporting period:

| | As at December 31, 2019 RMB'000 |
|--|--|
| Carrying amounts | 1,000,000 |
| Accrued interest | 10,886 |
| | 1,010,886 |
| Less: Amount held by Shantou Glory | (500,000) |
| | 510,886 |
| Less: Amount due within one year shown under current liabilities | (10,886) |
| Amount due after one year | 500,000 |

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

40. SENIOR NOTES

| | As at December 31, 2019 RMB'000 | As at December 31, 2018 RMB'000 |
|--|--|--|
| 2017 Senior Notes (Note (a)) | 214,657 | 2,056,004 |
| 2018 First Tranche Senior Notes (Note (b)) | – | 1,712,360 |
| 2018 Second Tranche Senior Notes (Note (c)) | 699,244 | 677,419 |
| 2019 Senior Notes (Note (d)) | 3,207,466 | – |
| 2019 Private Placement Notes (Note (e)) | 689,927 | – |
| | 4,811,294 | 4,445,783 |
| Less: Amount due within one year shown under current liabilities | (1,734,974) | (3,768,364) |
| Amount due after one year | 3,076,320 | 677,419 |

Notes:

(a) 2017 Senior Notes

On March 21, 2017, the Company issued senior notes with an aggregate nominal value of United States dollars (“US\$”) 300,000,000 (“2017 Senior Notes”) at face value. The 2017 Senior Notes, bearing interest at 7.00% per annum, payable semi-annually from September 21, 2017 will mature on March 21, 2020. The effective interest rate is approximately 7.82% per annum after the adjustment for transaction costs. The 2017 Senior Notes are listed on the Stock Exchange.

According to the terms and conditions of the 2017 Senior Notes, the Company may at its option (“early redemption options”) to redeem the 2017 Senior Notes in the following circumstances:

- (1) On 21 March, 2019, the Company may redeem the 2017 Senior Notes, in whole and not in part, at the redemption price equal to 100% of the principal amount of the 2017 Senior Notes redeemed plus accrued interest, if any, on the 2017 Senior Notes redeemed, to (but not including) the date of redemption.
- (2) At any time prior to March 21, 2019, the Company may redeem the 2017 Senior Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the redeemed 2017 Senior Notes plus the applicable premium as of, and accrued interest, if any, to (but not including) the redemption date. Applicable premium means with respect to 2017 Senior Notes at any redemption date, the greater of (i) 1.00% of the principal amount of such notes and (ii) the excess of (A) the present value at such redemption date of the principal amount of such notes on March 21, 2019, plus all required remaining scheduled interest payments due on such notes through March 21, 2019 (but excluding accrued and unpaid interest to the redemption date), computed using a discount rate equal to the adjusted treasury rate plus 100 basis points, over (B) the principal amount of such notes on such redemption date.
- (3) At any time and from time to time prior to March 21, 2020, the Company may redeem up to 35% of the aggregate principal amount of the 2017 Senior Notes with the net cash proceeds of one or more sales of common stock of the Company in an equity offering at a redemption price of 107.00% of the principal amount of the 2017 Senior Notes redeemed, plus accrued interest, if any, to (but not including) the redemption date, provided that at least 65% of the aggregate principal amount of the 2017 Senior Notes originally issued on the original issue date remains outstanding after such redemption and any such redemption takes place within 60 days after the closing of the related equity offering.

The holders of 2017 Senior Notes have the right, at their option, to require the Company to repurchase all of their 2017 Senior Notes in cash, or any portion of the principal thereof that is equal to US\$200,000 or an integral multiple of US\$1,000 in excess thereof, on March 21, 2019 at the repurchase price equal to 100% of the principal amount of 2017 Senior Notes to be repurchased, plus accrued interest to, but excluding, March 21, 2019.

40. SENIOR NOTES (Continued)

Notes: (Continued)

(a) 2017 Senior Notes (Continued)

On March 21, 2019, the Company completed redemption of US\$269,810,000 of the 2017 Senior Notes whose holders exercised their redemption options at a redemption price equal to 100% of principal plus accrued interest to such redemption date and US\$30,190,000 of the aggregate principal amount of the 2017 Senior Notes remain outstanding. After the completion of redemption, the 2017 Senior Notes whose holders exercised their redemption options have been expired.

The fair value of 2017 Senior Notes as at December 31, 2019 is approximately RMB201,770,000 based on quoted market price and classified as level 1 of fair value hierarchy.

(b) 2018 First Tranche Senior Notes

On March 2, 2018, the Company issued senior notes with an aggregate nominal value of US\$250,000,000 (“**2018 First Tranche Senior Notes**”) at face value. 2018 First Tranche Senior Notes bearing interest at 10.20% per annum, payable semi-annually on September 2, 2018 and March 1, 2019, matured on March 1, 2019. The effective interest rate is approximately 11.94% per annum after the adjustment for transaction costs. 2018 First Tranche Senior Notes are listed on the Stock Exchange.

2018 First Tranche Senior Notes may be redeemed in the following circumstances:

- (1) At any time prior to March 1, 2019, the Company may at its option to redeem the 2018 First Tranche Senior Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of 2018 First Tranche Senior Notes plus the applicable premium as of, and accrued and interest, if any, to (but not including) the redemption date. The Company will give not less than 30 days notice of any redemption.
- (2) At any time and from time to time prior to March 1, 2019, the Company may redeem up to 35% of the aggregate principal amount of 2018 First Tranche Senior Notes with the net cash proceeds of one or more sales of common stock of the Company in an equity offering at a redemption price of 110.2% of the principal amount of 2018 First Tranche Senior Notes redeemed, plus accrued interest, if any, to (but not including) the redemption date, provided that at least 65% of the aggregate principal amount of 2018 First Tranche Senior Notes originally issued on the original issue date remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related equity offering.

On March 1, 2019, the Company completed the full redemption of the 2018 First Tranche Senior Notes with cash. The aggregate redemption price is equivalent to the principal amount plus accrued interest to the maturity date.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

40. SENIOR NOTES (Continued)

Notes: (Continued)

(c) 2018 Second Tranche Senior Notes

On June 7, 2018, the Company issued senior notes with an aggregate nominal value of US\$100,000,000 (“**2018 Second Tranche Senior Notes**”) at face value. 2018 Second Tranche Senior Notes bearing interest at 10.00% per annum payable semi-annually on December 7 and June 7 of each year, will mature on June 7, 2020. The effective interest rate is approximately 11.03% per annum after the adjustment for transaction costs. 2018 Second Tranche Senior Notes are listed on the Stock Exchange.

2018 Second Tranche Senior Notes may be redeemed in the following circumstances:

- (1) At any time prior to June 7, 2020, the Company may at its option to redeem 2018 Second Tranche Senior Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of 2018 Second Tranche Senior Notes plus the applicable premium as of, and accrued interest, if any, to (but not including) the redemption date.
- (2) At any time and from time to time prior to June 7, 2020, the Company may redeem up to 35% of the aggregate principal amount of 2018 Second Tranche Senior Notes with the net cash proceeds of one or more sales of common stock of the Company in an equity offering at a redemption price of 110.0% of the principal amount of 2018 Second Tranche Senior Notes redeemed, plus accrued interest, if any, to (but not including) the redemption date, provided that at least 65% of the aggregate principal amount of 2018 Second Tranche Senior Notes originally issued on the original issue date remains outstanding after such redemption and any such redemption takes place within 60 days after the closing of the related equity offering.

The Company will give not less than 30 days notice of any redemption.

The Directors consider that the fair value of the above early redemption options was insignificant on initial recognition and as at December 31, 2019.

The fair value of 2018 Second Tranche Senior Notes as at December 31, 2019 is approximately RMB675,750,000 based on quoted market price and classified as level 1 of fair value hierarchy.

(d) 2019 Senior Notes

On February 27, 2019, the Company issued senior notes with an aggregate nominal value of US\$160,000,000 (“**2019 Original Notes**”) at 97.0% of the principal amount of the 2019 Original Notes. 2019 Original Notes bearing interest at 13.50% per annum, payable semi-annually in arrears on February 28 and August 28 of each year, commencing on August 28, 2019, will mature on February 28, 2022. The effective interest rate is approximately 15.74% per annum after the adjustment for transaction costs. The 2019 Original Notes are listed on the Stock Exchange.

On March 15, 2019, the Company issued senior notes with an aggregate nominal value of US\$295,000,000 (“**2019 Additional Notes**”) at 97.0% of the principal amount of the 2019 Additional Notes plus accrued interest from (and including) February 27, 2019 to (but not including) March 15, 2019. The 2019 Additional Notes is to be consolidated and form a single series with the 2019 Original Notes. The principal terms of the Additional Notes are identical to the terms of the 2019 Original Notes, other than the aggregated principal amount and offer price. The effective interest rate is approximately 15.53% per annum after the adjustment for transaction costs.

The 2019 Original Notes and 2019 Additional Notes (collectively referred to as the “2019 Senior Notes”) may be redeemed in the following circumstances:

40. SENIOR NOTES (Continued)

Notes: (Continued)

(d) 2019 Senior Notes (Continued)

- (1) At any time prior to February 28, 2022, the Company may at its option redeem the 2019 Senior Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the redeemed 2019 Senior Notes plus the applicable premium as of, and accrued but unpaid interest, if any, to (but not including) the redemption date.
- (2) At any time and from time to time prior to February 28, 2022, the Company may redeem up to 35% of the aggregate principal amount of the 2019 Senior Notes with the net cash proceeds of one or more sales of common stock of the Company in an equity offering at a redemption price of 113.5% of the principal amount of the 2019 Senior Notes redeemed, plus accrued and unpaid interest, if any, to (but not including) the redemption date, provided that at least 65% of the aggregate principal amount of the 2019 Senior Notes originally issued on the original issue date remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related equity offering.

The Company will give not less than 30 days' nor more than 60 days' notice of any redemption to the Notes holders and the trustee.

The Directors consider that the fair value of the above early redemption options was insignificant on initial recognition and as at December 31, 2019.

The fair value of 2019 Senior Notes as at December 31, 2019 is approximately RMB3,020,763,000 based on quoted market price and classified as level 1 of fair value hierarchy.

(e) 2019 Private Placement Notes

On April 9, 2019, the Company issued the notes with an aggregate nominal value of US\$100,000,000 ("**2019 Private Placement Notes**"). 2019 Private Placement Notes bearing interest at 15.00% per annum, is payable quarterly in advance on January 9, April 9, July 9 and October 9 in each year, commencing on April 9, 2019.

2019 Private Placement Notes may be redeemed in the following circumstances:

- (1) Scheduled redemption: Unless previously redeemed, or purchased and cancelled, the 2019 Private Placement Notes will be redeemed at their principal amount on January 9, 2021.
- (2) Redemption at the option of holder of 2019 Private Placement Notes ("**Holders**"): The issuer shall, at the option of the Holders of any 2019 Private Placement Notes redeem all but not some of such Holder's 2019 Private Placement Notes on April 9, 2020 at 100% of the principal amount of such 2019 Private Placement Notes.

The Directors consider that the carrying amounts of 2019 Private Placement Notes recorded at amortized cost in the consolidated financial statements approximate their fair values as at December 31, 2019.

The Directors consider that the fair value of the above early redemption options was insignificant on initial recognition and as at December 31, 2019.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

41. SHARE CAPITAL

| | Number of shares | Share capital HK\$ | Equivalent to RMB'000 |
|--|---------------------|-----------------------|--------------------------|
| Ordinary shares of RMB0.001 each | | | |
| Authorized: | | | |
| At January 1, 2018, December 31, 2018 and 2019 | 10,000,000,000 | 10,000,000 | |
| Issued and fully paid: | | | |
| At January 1, 2018 | 4,443,346,986 | 4,443,347 | 3,519 |
| Exercise of share options (note 43) | 1,071,000 | 1,071 | 1 |
| At December 31, 2018 and 2019 | 4,444,417,986 | 4,444,418 | 3,520 |

During the year ended December 31, 2019, no share options to subscribe for ordinary shares with par value of RMB0.001 each were exercised (2018: 1,071,000) at RMB1.428 (2018: RMB1.428) per share.

42. RETIREMENT BENEFIT PLANS

According to the relevant laws and regulations in the PRC, the Company's PRC subsidiaries are required to participate in a defined contribution retirement scheme administrated by the local municipal government. The group entities in the PRC contribute funds which are calculated on a certain percentage range from 12% to 20% of the average employee salary as agreed by local municipal government to the scheme to fund the retirement benefits of the employees. The principal obligation of the Group with respect to the retirement benefit scheme is to make the required contributions under the scheme. The total cost charged to profit or loss for the year ended December 31, 2019 amounted to RMB24,704,000 (2018: RMB24,319,000), represent contributions paid or payable to the scheme by the Group.

43. SHARE-BASED PAYMENT TRANSACTIONS

Share Option Scheme

Pursuant to the pre-IPO share option scheme adopted by the Company on June 5, 2014 (the "**Pre-IPO Share Option Scheme**"), the Company granted to 54 grantees options to subscribe for an aggregate of 67,076,800 shares of the Company on June 16, 2014 (the "**Pre-IPO Share Option**").

All options under the Pre-IPO Share Option Scheme were granted on June 16, 2014. No additional performance target or condition applies to the outstanding options granted under the Pre-IPO Share Option Scheme. The exercise price for any option granted under the Pre-IPO Share Option Scheme shall be 60% of the offer price. All share options will be expired after 7 years since the grant date.

The vesting period of the Pre-IPO Share Option is as follows:

33.33%: from the date of grant to July 7, 2015

33.33%: from the date of grant to July 7, 2016

33.34%: from the date of grant to July 7, 2017

43. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

Share Option Scheme (Continued)

Pre-IPO Share Option Scheme

The following table discloses movements of the Company's share options held by employees and directors during the year:

| | Outstanding as at January 1, 2019 | Exercised during the year | Lapsed during the year (Note) | Transferred | Outstanding as at December 31, 2019 |
|--|---|---------------------------------|--|-------------|---|
| Pre-IPO Share Option | | | | | |
| – Directors | 10,500,000 | – | – | 690,000 | 11,190,000 |
| – Other employees | 42,592,804 | – | (4,386,667) | (690,000) | 37,516,137 |
| | 53,092,804 | – | (4,386,667) | – | 48,706,137 |
| Exercisable at the end of the period | | | | | 48,706,137 |
| Weighted average exercise price (HKD) | 1.428 | 1.428 | – | – | 1.428 |

| | Outstanding as at January 1, 2018 | Exercised during the year | Lapsed during the year (Note) | Transferred | Outstanding as at December 31, 2018 |
|--|---|---------------------------------|--|-------------|---|
| Pre-IPO Share Option | | | | | |
| – Directors | 10,500,000 | – | – | – | 10,500,000 |
| – Other employees | 43,813,814 | (1,071,000) | (150,010) | – | 42,592,804 |
| | 54,313,814 | (1,071,000) | (150,010) | – | 53,092,804 |
| Exercisable at the end of the period | | | | | 53,092,804 |
| Weighted average exercise price (HKD) | 1.428 | 1.428 | – | – | 1.428 |

Note: Certain share options granted under Pre-IPO Share Option Scheme were lapsed during the years ended December 31, 2019 and 2018.

In respect of the share options exercised in 2018, the weighted average share price at the dates of exercise is HK\$2.22 per share.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

44. ACQUISITION OF SUBSIDIARIES

For the year ended December 31, 2018

Acquisition of businesses

(i) *Seven real estate project companies*

On August 31, 2017, Garden Group, Heshan Tengyue Property Development Co., Ltd. 鶴山市騰悅房地產開發有限公司 (“**Heshan Tengyue**”), a company indirectly controlled by Mr. Zhang Zhangqiao (younger brother of Mr. Zhang Zhangsun, executive director and controlling shareholder of the Company), Great Strong International Co., Ltd. 強旺國際有限公司, original shareholder of Jiangmen Yinghuiwan (ultimately controlled by Mr. Zhang Zhangqiao), and Jiangmen Yinghuiwan entered into an equity acquisition and cooperation agreement, pursuant to which Garden Group will acquire 10% equity interest in Jiangmen Yinghuiwan from Heshan Tengyue at a consideration of RMB34,340,000 and cooperate in the projects of Jiangmen Yinghuiwan.

On August 31, 2017, Garden Group entered into the subscription and cooperation agreements with the respective shareholders of Guangdong Hongtaiguotong, Guangdong Guosha, Tianjin Tianfurongsheng Real Estate Development Co., Ltd. 天津天富融盛房地產開發有限公司 (“**Tianjin Tianfurongsheng**”), Sanya Jingheng Properties Co., Ltd. 三亞景恒置業有限公司 (“**Sanya Jingheng**”), Chongqing Guosha Estate Development Co., Ltd. 重慶國廈房地產開發有限公司 (“**Chongqing Guosha**”), Handan Guoxia Real Estate Development Co., Ltd. 邯鄲市國廈房地產開發有限公司 (“**Handan Guoxia**”), which were ultimately controlled by Mr. Zhang Zhangqiao, to make capital contributions to those entities, at a total consideration of RMB233,920,000 to obtain 10% equity interest of each entity.

Those companies were previously accounted for as associates of the Group as at December 31, 2017 as the Group has the right to appoint one director in the board of each entity and has significant influence over these entities.

On April 27, 2018, the Group decided to increase its shareholding in these entities and entered into capital contribution agreements with the following entities, together with their respective shareholders at a total consideration set out below. Upon signing of the capital contribution agreements and the amendment of the articles of associations of each entity, these entities became subsidiaries of the Group. These acquisitions were accounted for using the acquisition method.

44. ACQUISITION OF SUBSIDIARIES (Continued)

For the year ended December 31, 2018 (Continued)

Acquisition of businesses (Continued)

(i) Seven real estate project companies (Continued)

| Name of subsidiaries | Capital contributions RMB'000 | Capital of ownership interest held by the Group | |
|--------------------------|----------------------------------|---|-------------------------|
| | | As at December 31, 2017 | As at December 31, 2018 |
| Jiangmen Yinghuiwan | 170,169 | 10% | 52% |
| Guangdong Hongtaiguotong | 366,980 | 10% | 35% |
| Guangdong Guosha | 46,770 | 10% | 68% |
| Tianjin Tianfurongsheng | 171,060 | 10% | 35% |
| Sanya Jingheng | 253,820 | 10% | 35% |
| Handan Guoxia | 87,220 | 10% | 35% |
| Chongqing Guosha | 72,580 | 10% | 51% |
| | 1,168,599 | | |

(ii) Shijiazhuang Guosha

On November 23, 2018, Beijing Guoxing Wanxun Technology Trade Consulting Co., Ltd. 北京國興萬訊科貿諮詢有限公司 (“Guoxing Wanxun”), an indirect wholly-owned subsidiary of the Company, signed one subscription and cooperative development agreement to make capital contribution in Shijiazhuang Guosha which was originally controlled by Mr. Zhang Zhangqiao. Pursuant to the subscription and cooperative development agreement, Guoxing Wanxun will make capital contribution in Shijiazhuang Guosha of RMB356,100,000 to obtain its 51% equity interest. Upon completion of the capital contribution, Shijiazhuang Guosha became a subsidiary of the Group. The acquisition was accounted for using the acquisition method.

Notes to the Consolidated Financial Statements

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44. ACQUISITION OF SUBSIDIARIES (Continued)

For the year ended December 31, 2018 (Continued)

Acquisition of businesses (Continued)

Assets acquired and liabilities recognized at the date of acquisition are as follows:

| | Seven real estate project companies RMB'000 | Shijiazhuang Guosha RMB'000 | Total RMB'000 |
|---|---|-----------------------------------|------------------|
| Assets acquired and liabilities recognized at the date of acquisition: | | | |
| Property, plant and equipment | 8,918 | 169 | 9,087 |
| Other non-current assets | 668 | 327,000 | 327,668 |
| Properties under development for sale | 8,553,279 | 1,877,048 | 10,430,327 |
| Trade and other receivables, deposits and prepayments | 1,017,092 | 29,113 | 1,046,205 |
| Amounts due from related parties | 1,299,842 | – | 1,299,842 |
| Value added tax and tax recoverable | 221,934 | 15,558 | 237,492 |
| Bank balances and cash | 694,238 | 35,931 | 730,169 |
| Trade and other payables | (1,272,441) | (1,172,802) | (2,445,243) |
| Amounts due to related parties | (1,861,140) | – | (1,861,140) |
| Contract liabilities | (3,804,515) | (291,026) | (4,095,541) |
| Tax payable | (466) | – | (466) |
| Bank and other borrowings | | | |
| – due within one year | (200,000) | – | (200,000) |
| Bank and other borrowings | | | |
| – due after one year | (646,900) | (122,000) | (768,900) |
| Deferred tax liabilities | (959,790) | (157,701) | (1,117,491) |
| Fair value of net assets acquired | 3,050,719 | 541,290 | 3,592,009 |
| Fair value of 10% previously equity interests held by the Group | 379,400 | – | 379,400 |
| Plus: Non-controlling interests | 2,586,084 | 439,065 | 3,025,149 |
| Less: Fair value of net assets acquired | (3,050,719) | (541,290) | (3,592,009) |
| | (85,235) | (102,225) | (187,460) |

The gain from bargain purchase amounted to RMB187,460,000 were recognized as a deemed contribution from a related party and recorded in “other reserve”. The difference between the fair value of the previously equity interests held by the Group and the carrying amounts of such interests amounted to RMB121,250,000 was recognized in the profit or loss under “other gains and losses”.

44. ACQUISITION OF SUBSIDIARIES (Continued)**For the year ended December 31, 2018 (Continued)****Acquisition of businesses (Continued)**

The non-controlling interests in the subsidiaries recognized at the acquisition date were measured by reference to the proportionate share of net assets acquired.

Net cash inflow arising on acquisition:

| | Seven real estate project companies RMB'000 | Shijiazhuang Guosha RMB'000 | Total RMB'000 |
|---------------------------------|---|-----------------------------------|------------------|
| Bank balances and cash acquired | 694,238 | 35,931 | 730,169 |

45. DISPOSAL OF SUBSIDIARIES**For the year ended December 31, 2019**

In 2019, the Group disposed of its 55% equity interest in Chaotuan International Trade Co., Ltd. 潮團國際商貿有限公司 (“**Chaotuan Trade**”) to a related party at a nominal amount. The net assets of Chaotuan Trade at the date of disposal were as follows:

| | December 31, 2019 RMB'000 |
|---|---------------------------------|
| Analysis of assets and liabilities over which control were lost: | |
| Properties under development for sale | 224,664 |
| Bank balances and cash | 40 |
| Other payables | (62,750) |
| Net assets disposed of | 161,954 |
| Loss on disposal of a subsidiary: Net assets disposed of | 161,954 |
| Non-controlling interests Other receivable* | 72,879 90,000 |
| Gain on disposal of a subsidiary recognized in profit and loss | (925) |
| Net cash outflow arising on disposal: Cash consideration Less: bank balances and cash disposed of | - (40) |
| | (40) |

* The amount will be settled in cash by the purchaser on or before June, 2020.

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For the year ended December 31, 2019

45. DISPOSAL OF SUBSIDIARIES (Continued)

For the year ended December 31, 2018

In 2018, New Beijing Glory disposed of its 51% equity interest in Wuxi Glory to a third party at a nominal amount and Wuxi Glory became an associate of the Group.

The net liabilities of Wuxi Glory at the date of disposal were as follows:

| | December 31, 2018 RMB'000 |
|--|---------------------------------|
| Analysis of assets and liabilities over which control were lost: | |
| Property, plant and equipment | 13 |
| Properties under development for sale | 220,585 |
| Trade and other receivables, deposits and prepayments | 419 |
| Bank balances and cash | 131 |
| Amounts due to related parties | (221,553) |
| Net liabilities disposed of | (405) |
| Gain on disposal of a subsidiary recognized in profit and loss | 405 |
| Net cash outflow arising on disposal: | |
| Cash consideration | – |
| Less: Bank balances and cash disposed of | (131) |
| | (131) |

46. PLEDGE OF ASSETS

The following assets were pledged to secure certain bank and trust borrowings granted to the Group at the end of each reporting period:

| | At December 31, | |
|---------------------------------------|-------------------|-----------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| Investment properties | 18,606,400 | 17,675,155 |
| Property, plant and equipment | 784,730 | 814,801 |
| Right-of-use assets | 274,650 | – |
| Prepaid lease payments | – | 278,637 |
| Properties under development for sale | 16,470,513 | 15,378,746 |
| Properties held for sale | 748,090 | 473,279 |
| Restricted bank deposits | 250,006 | 11 |
| | 37,134,389 | 34,620,629 |

As at December 31, 2019, bank deposits of RMB175,271,000 (2018: RMB215,778,000) were pledged as security for mortgage loans of the Group's customers.

46. PLEDGE OF ASSETS (Continued)

The equity interest of the following subsidiaries were pledged to secure certain bank and other loans facilities granted to the Group:

| | As at December 31, 2019 % | As at December 31, 2018 % |
|---|------------------------------------|------------------------------------|
| Foshan Glory Southern Real Estate Development Co., Ltd. 佛山市國瑞南方地產開發有限公司 (“ Foshan Glory Southern ”) | 100 | 100 |
| Glory Investment | 100 | 100 |
| Beijing Wenhua Shengda Real Estate Development Co., Ltd. 北京文華盛達房地產開發有限公司 (“ Beijing Wenhua Shengda ”) | 100 | 100 |
| Foshan Guohua | 100 | 100 |
| Shantou Glory Real Estate Development Co., Ltd. 汕頭市國瑞房地產開發有限公司 (“ Shantou Glory ”) | 100 | 100 |
| Shantou Guorui Hospital Co., Ltd. 汕頭市國瑞醫院有限公司 (“ Guorui Hospital ”) | 100 | 100 |
| Langfang Glory Real Estate Development Co., Ltd. 廊坊國瑞房地產開發有限公司 (“ Langfang Glory ”) | – | 100 |
| Suzhou Glory | – | 100 |
| Beijing Deheng | 100 | 100 |
| Shenzhen Wanji Pharmaceutical Co., Ltd. 深圳萬基藥業有限公司 (“ Shenzhen Wanji ”) | 75 | 75 |
| Hainan Junhe Industrial Co., Ltd. 海南駿和實業有限公司 (“ Hainan Junhe ”) | 80 | 51 |
| Glory Xingye (Beijing) Industrial Co., Ltd. 國瑞興業(北京)實業股份有限公司 (“ Glory Industrial ”) | 91 | 91 |
| Guangdong Hongtaiguotong | 35 | 35 |
| New Beijing Glory | 80 | – |
| Langfang Guoxing | 100 | – |
| Guangdong Guosha | 35 | – |

Except as disclosed above, the Group pledged 100% equity interest in Hainan Glory Investment & Development Co., Ltd. 海南國瑞投資開發有限公司 (“**Hainan Glory Investment**”) to Hai Kou New City Construction & Development Co., Ltd. 海口新城區開發建設有限公司 (“**Hai Kou New City**”) in order to secure the performance obligation as at December 31, 2019 and 2018. The pledge shall be released within 10 days after the completion of the construction contract.

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For the year ended December 31, 2019

47. OPERATING LEASES

The Group as lessee

| | December 31, 2019 <i>RMB'000</i> |
|--|--|
| Minimum lease payments paid under operating leases during the year | 3,254 |

The Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

| | December 31, 2018 <i>RMB'000</i> |
|---------------------------------------|--|
| Within one year | 1,774 |
| In the second to fifth year inclusive | 732 |
| Over five years | 326 |
| | 2,832 |

The Group as lessor

All of the offices, shopping mall and retail stores held for rental purposes have committed lessees for the next 1 and 10 years respectively.

Minimum lease payments receivable on leases are as follows:

| | December 31, 2019 <i>RMB'000</i> |
|--------------------|--|
| Within one year | 658,555 |
| In the second year | 547,672 |
| In the third year | 408,629 |
| In the fourth year | 270,259 |
| In the fifth year | 186,189 |
| After five years | 402,086 |
| | 2,473,390 |

47. OPERATING LEASES (Continued)

The Group as lessor (Continued)

The Group had contracted with lessees for the following future minimum lease payments:

| | December 31, 2018 <i>RMB'000</i> |
|--|--|
| Within one year | 628,302 |
| In the second year to fifth year inclusive | 1,518,288 |
| After five years | 457,118 |
| | 2,603,708 |

48. COMMITMENTS

| | At December 31, | |
|---|------------------------|------------------------|
| | 2019 <i>RMB'000</i> | 2018 <i>RMB'000</i> |
| Contracted but not provided for in the consolidated financial statements: | | |
| – Expenditure in respect of investment properties under development | 218,438 | 242,421 |
| – Construction of properties for own use | 613,264 | 644,841 |
| – Expenditure in respect of investment in a subsidiary | 459,380 | – |
| – Investment in a joint venture | – | 1,173,000 |
| | 1,291,082 | 2,060,262 |

In addition to the above capital commitments, the Group had contracted expenditure in respect of properties under development for sale of RMB6,843,636,000 (2018: RMB7,202,418,000) as at December 31, 2019, which have not provided for in the consolidated financial statements.

Notes to the Consolidated Financial Statements

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49. CONTINGENT LIABILITIES

| | At December 31, | |
|--|------------------|-----------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| Guarantees provided by the Group in respect of loan facilities utilized by | | |
| – individual property buyers (<i>Note</i>) | 8,405,698 | 7,651,650 |
| – corporate property buyers (<i>Note</i>) | 54,640 | 43,366 |
| | 8,460,338 | 7,695,016 |

Note: The Group has pledged certain bank deposits (details set out in note 46) and provided guarantees to banks in favor of its customers in respect of the mortgage loans provided by the banks to those customers for the purchase of the Group's developed properties and under development properties. These guarantees provided by the Group to the banks will be released upon receiving the building ownership certificate of the respective properties by the banks from the customers as security of the mortgage loans granted.

In the opinion of the Directors, the fair value of the financial guarantee contracts at initial recognition and subsequently at the end of each reporting period is not significant as the default rate is low and a large portion of consideration from property sales contract has been received and recognized as contract liabilities.

Pursuant to the construction contract signed between Hainan Glory Real Estate Development Co., Ltd. 海南國瑞房地產開發有限公司 (“**Hainan Glory**”) and Hai Kou New City on July 5, 2009, Hainan Glory pledged its 100% equity interest in Hainan Glory Investment to Hai Kou New City, the details of the pledge are disclosed in note 46.

As at December 31, 2019, Garden Group has provided guarantee to a bank for a banking facility granted to the Ruida Zhiye, of which the bank borrowing guaranteed by the Group was amounting to RMB799,785,000.

As at December 31, 2019, Handan Guoxia has provided guarantee for a bank borrowing granted to the Shijiazhuang Guolong Properties Development Co., Ltd 石家莊國龍房地產開發有限公司 (“Shijiazhuang Guolong”), a company controlled by Mr. Zhang Zhangqiao, of which the bank borrowing guaranteed by the Group was amounting to RMB100,000,000.

As at December 31, 2019, Guangdong Hongtaiguotong has provided guarantee for a bank borrowing granted to the Foshan Shunde Zanglong Education Management Co., Ltd 佛山市順德區藏瓏教育管理有限公司, a third party, of which the bank borrowing guaranteed by the Group was amounting to RMB9,900,000.

50. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to equity holders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debts, which includes the bank and trust borrowings as disclosed in note 38, corporate bonds as disclosed in note 39 and senior notes as disclosed in note 40, net of cash and cash equivalents, and equity attributable to owners of the Company, comprising issued share capital, retained earnings and other reserves.

The Directors review the capital structure regularly. The Group considers the cost of capital and the risks associated with each class of capital, and will balance its overall capital structure through issuance of new shares, payment of dividends, as well as raising of bank and trust borrowings and redemption of bank and trust borrowings.

51. FINANCIAL INSTRUMENTS

Categories of financial instruments

| | At December 31, | |
|--|-------------------|-----------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| <i>Financial assets</i> | | |
| Financial assets at amortized cost | 8,464,206 | 6,153,684 |
| Equity instruments at FVTOCI | 32,400 | 220,307 |
| | 8,496,606 | 6,373,991 |
| <i>Financial liabilities</i> | | |
| Liabilities measured at amortized cost | 38,374,663 | 37,785,151 |
| Rental deposits received | 155,429 | 142,321 |
| | 38,530,092 | 37,927,472 |

Financial risk management objectives and policies

The Group's financial instruments include financial assets at fair value through profit or loss, equity investments, trade and other receivables, amounts due from related parties, restricted bank deposits, bank balances and cash, trade and other payables, amounts due to related parties, bank and trust borrowings, lease liabilities, corporate bonds and senior notes. Details of these financial instruments are set out in respective notes. The risks associated with these financial instruments include market risk (foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

51. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Market risk

The Group's activities expose primarily to the market risks of changes in interest rates and foreign currency exchange rates.

There has been no significant change to the Group's exposure to market risks or the manner in which it manages and measures the risk over each of the reporting period.

(1) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings (see note 38 for details of these borrowings) and lease liabilities (see note 37 for details). The Group is exposed to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank balances, restricted bank deposits and bank and trust borrowings which carry at prevailing deposit interest rates or variable rate based on the interest rates quoted by the People's Bank of China.

The Group's fair value interest rate risk relates primarily to its fixed rate bank and trust borrowings, corporate bonds and senior notes. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk.

However, the management will consider hedging significant interest rate exposure should the need arise.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note.

Sensitivity analysis

The sensitivity analysis below has been prepared based on the exposure to interest rates on variable rate bank and trust borrowings at the end of the reporting period. No sensitivity analysis has been presented for bank balances and restricted bank deposits as the management considers that the fluctuation in interest rates on bank balances and restricted bank deposits is minimal. For variable rate bank and trust borrowings, the analysis is prepared assuming the stipulated change taking place at the beginning of the financial year and held constant throughout the year. A 50 basis points (2018: 50 basis points) increase or decrease for variable rate bank and trust borrowings are used when reporting interest rate risk internally to key management personnel and represent management's assessment of the reasonably possible change in interest rate in respect of bank and trust borrowings.

Bank balances and cash are excluded from sensitivity analysis as the directors of the Company consider that the exposure of cash flow interest rate risk arising from variable-rate bank balances is insignificant.

If interest rates had been increased/decreased by 50 basis points (2018: 50 basis points) in respect of variable rate bank and trust borrowings and all other variables were held constant, the Group's post-tax profit for the year ended December 31, 2019 (net of interest capitalization effect) would be decreased/increased by approximately RMB4,657,000 (2018: RMB3,573,000).

51. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Market risk (Continued)

(2) Foreign currency risk

The Group collects all of its revenue in RMB and incurs most of its expenditures in RMB.

The Group has certain bank deposits, bank borrowings and senior notes in foreign currencies; hence exposure to exchange rate fluctuations arises. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

| | Liabilities At December 31, | | Assets At December 31, | |
|----------------------------|--------------------------------|-----------------|---------------------------|-----------------|
| | 2019 RMB'000 | 2018 RMB'000 | 2019 RMB'000 | 2018 RMB'000 |
| HK\$ | - | - | 1,463 | 1,246 |
| USD | 4,671,718 | 4,445,783 | 265 | 692 |
| Singapore Dollar ("SGD\$") | - | - | - | 75 |
| | 4,671,718 | 4,445,783 | 1,728 | 2,013 |

Sensitivity analysis

The sensitivity analysis below has been determined based on a 5% (2018: 5%) possible appreciation or depreciation in other currencies against RMB. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjust its translation at the end of the reporting period for a 5% change in the foreign currency rates. The sensitivity rate used is the rate when reporting foreign currency risk internally to key management personnel and represents the management's assessment of the reasonably possible change in foreign exchange rates.

For financial assets, if the foreign currencies appreciates 5% against RMB and all other variables were held constant, the Group's profit for the year ended December 31, 2019 would be increased by RMB86,000 (2018: RMB101,000). There would be an equal and opposite impact on post-tax profit for the year if the foreign currencies depreciates 5% against RMB.

For financial liabilities, if the foreign currencies appreciates 5% against RMB and all other variables were held constant, the Group's post-tax profit for the year ended December 31, 2019 would be decreased by RMB233,586,000 (2018: RMB222,289,000). There would be an equal and opposite impact on post-tax profit for the year if the foreign currencies depreciates 5% against RMB.

In the opinion of the Directors, the sensitivity analysis is unrepresentative of the inherent currency risk as the exposure at the end of the reporting period does not reflect the exposure during the year.

(3) Other price risk

The Group is exposed to equity price risk through its investments in equity securities measured at FVTOCI. The Group invested in certain unquoted equity securities for investees involved in for long term strategic purposes which had been designed as FVTOCI. The Group has appointed a special team to monitor the price risk and will consider hedging the risk exposure should the need arise.

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51. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment

Credit risk refers to the risk that the Group's counterparties default on their contractual obligations resulting in financial losses to the Group. The Group is exposed to credit risk in relation to its trade and other receivables, contract assets, amounts due from related parties, restricted bank deposits, bank balances and financial guarantee contracts issued by the Group.

At the end of each of the reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties and financial guarantee contracts issued by the Group is arising from the carrying amount of the respective recognized financial assets as stated in the consolidated statement of financial position and the amount of contingent liabilities disclosed in note 49.

To manage this risk, bank deposits are mainly placed with state-owned financial institutions and reputable banks. The Group has policies to control the size of the deposits to be placed with various reputable financial institutions according to their market reputation, operating scale and financial background with a view to limiting the amount of credit exposure to any single financial institution.

The Group has no concentration of credit risk in respect of trade and other receivables, with exposure spread over a number of customers, who are individual purchasers for residential properties and various types of corporations and other business entities for commercial properties.

In order to minimize the credit risk, monitoring procedures are carried out to ensure that follow up action is taken to recover overdue debts. In addition, the management of the Group reviews regularly the recoverable amount of trade and other receivables at the end of each reporting period. The amounts presented in the consolidated statement of financial position are net of allowances for credit losses, estimated by the Group's management based on historical settlement records, adjusts for forward-looking information and their assessment of the current economic environment. The Group performs impairment assessment under ECL model on trade balances individually or based on provision matrix.

The Group has concentration of credit risk on amounts due from related parties as at December 31, 2019 with details set out in note 52. The management of the Group considers the credit risk and probability of default are low for those related parties, no material loss allowance was recognized in respect of the amounts due from related parties accordingly.

For properties that are presold but development has not been completed, the Group typically provides guarantees to banks in connection with the customers' borrowing of mortgage loans to finance their purchase of the properties for an amount up to 70% of the purchase price of the individual property. If a purchaser defaults on the payment of its mortgage during the period of guarantee, the bank holding the mortgage may demand the Group to repay the outstanding loan and any interest accrued thereon. Under such circumstances, the Group is able to forfeit the sales deposit received and resell the reprocessed properties. Therefore, the management considers it would likely recover any loss incurred arising from the guarantee provided by the Group. The management considers the credit risk exposure to financial guarantees provided to property purchasers is limited because the facilities are secured by the properties, the amount drawn down was held by the Group, and the market price of the properties is higher than the guaranteed amounts.

51. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

The tables below detail the credit risk exposures of the Group's financial assets and other items, which are subject to ECL assessment:

| | | At December 31, | |
|---|--------------------------------|---|---|
| | | 2019 Gross carrying amount RMB'000 | 2018 Gross carrying amount RMB'000 |
| | 12-month or lifetime ECL | | |
| Financial assets at amortized cost | | | |
| Trade receivables | Lifetime ECL | 532,502 | 388,682 |
| Lease receivables | Lifetime ECL | 126,259 | 78,052 |
| Lease receivables | Lifetime ECL (credit-impaired) | 1,917 | – |
| Other receivables and deposits | 12m ECL | 1,153,396 | 2,533,454 |
| Other receivables and deposits | Lifetime ECL (credit-impaired) | 3,560 | – |
| Amounts due from related parties | 12m ECL | 4,460,656 | 2,588,873 |
| Other items | | | |
| Contract assets | Lifetime ECL | 1,442,134 | 1,223,570 |
| Financial guarantee (Note) | 12m ECL | 909,685 | – |

Note: For financial guarantee contracts, the gross carrying amount represents the maximum amount the Group has guaranteed under the respective contracts.

The following tables show reconciliation of loss allowances that has been recognized for trade receivables, lease receivables, other receivables and amount due from related parties.

| | 12m ECL RMB'000 | Lifetime ECL (not credit- impaired) RMB'000 | Lifetime ECL (credit- impaired) RMB'000 | Total RMB'000 |
|---|--------------------|--|--|------------------|
| As at 31 December 2018 | – | – | 3,027 | 3,027 |
| – Impairment losses recognized | | | | |
| trade receivables and lease receivables | – | 559 | 1,917 | 2,476 |
| other receivables | 1,377 | – | 3,560 | 4,937 |
| amount due from related parties | 2,986 | – | 16,814 | 19,800 |
| As at 31 December 2019 | 4,363 | 559 | 25,318 | 30,240 |

For financial guarantee contracts, the maximum amount that the Group has guaranteed under the respective contracts was RMB909,685,000 as at December 31, 2019 (2018: Nil). At the end of the reporting period, the Directors have performed impairment assessment, and concluded that the ECL since initial recognition of the financial guarantee contracts is insignificant. Details of the financial guarantee contracts are set out in Note 49.

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51. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Liquidity risk management

The Group's objective is to maintain a balance between continuity of funding and the flexibility through the use of borrowings and its available credit facilities. The Directors closely monitor the liquidity position and ensure it has adequate sources of funding to finance the Group's projects and operations.

Based on the business model, the Group relied to a great extent on proceeds received from properties pre-sale to finance its development and construction of real estate projects. As there is no assurance that proceeds received from future pre-sales of the Group's current real estate projects will be sufficient to meet the Group's needs, the Group's operating plan requires it to raise additional funds to finance the development and construction of its current real estate projects. If the Group is unable to raise additional equity or debt financing, the Group's operations might need to be curtailed.

The management performed cash flow forecasts for the Group's operations and monitors the forecasts of the Group's liquidity requirements from time to time to ensure the Group has sufficient cash to meet its operational needs and settle liabilities when they fall due. The management takes into account the following considerations in projecting their cash flow forecasts: (a) estimated cash inflows from property sales; (b) further loans under provisional approvals of certain banks which are subject to application by the Group; and (c) senior loan notes for issue up to the amount of US\$230 million (equivalent to approximately RMB1,500 million), the endorsement of which from the National Development and Reform Commission (國家發展和改革委員會) (that valid for the period till July 31, 2020) has been obtained. The Directors consider that the Group will be able to maintain sufficient financial resources to meet its operational needs. However, the current economic conditions continue to create uncertainty particularly over the level of demand for the Group's properties for sale and the availability of bank finances for the foreseeable future. Any delay or unavailability of any of the above measure or sources of finance would impact the Group's liquidity position. The management will closely monitor the liquidity position and set out alternative measures which include adjusting the construction progress as appropriate, reducing the Group's spending on land investments, accelerating sales with more flexible pricing and obtaining other external financing through security market.

The following table details the Group's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates. The table includes both interest and principal cash flows. To the extent that interest flows are variable rate, the undiscounted amount is derived from interest rate at the end of the reporting period. The amounts included below for variable rate financial liabilities is subject to change if change in interest rates differ to those estimates of interest rates determined at the end of the reporting period.

51. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Liquidity risk management (Continued)

| | Undiscounted cash flows | | | | | | Carrying amount RMB'000 |
|-------------------------------------|-------------------------|---|----------------------|----------------------|-------------------------|--|----------------------------|
| | Interest rate | On demand and Less than 1 year RMB'000 | 1-2 years RMB'000 | 2-5 years RMB'000 | Over 5 years RMB'000 | Total undiscounted cash flows RMB'000 | |
| At December 31, 2019 | | | | | | | |
| Trade and other payables | - | 5,604,397 | - | - | - | 5,604,397 | 5,604,397 |
| Amounts due to related parties | - | 5,322,007 | - | - | - | 5,322,007 | 5,322,007 |
| Rental deposits received | - | 33,366 | 27,344 | 94,719 | - | 155,429 | 155,429 |
| Bank and trust borrowings | | | | | | | |
| – Fixed interest rate borrowings | 4.75%-13.00% | 4,649,063 | 2,346,949 | 3,351,814 | 5,978,656 | 16,326,482 | 12,472,547 |
| – Variable interest rate borrowings | 4.75%-10.00% | 3,116,039 | 2,592,007 | 3,611,980 | 1,656,028 | 10,976,054 | 9,594,057 |
| Lease liabilities | 8.08% | 1,935 | 1,935 | 1,365 | - | 5,235 | 4,574 |
| Corporate bonds | 7.25%-8.50% | 100,790 | 542,500 | - | - | 643,290 | 565,787 |
| Senior notes | 7.00%-19.80% | 2,136,568 | 435,399 | 3,442,876 | - | 6,014,843 | 4,811,294 |
| | | 20,964,165 | 5,946,134 | 10,502,754 | 7,634,684 | 45,047,737 | 38,530,092 |
| Financial guarantee contracts | | 9,370,023 | 9,370,023 | - | - | 9,370,023 | - |
| | | 30,334,188 | 5,946,134 | 10,502,754 | 7,634,684 | 54,417,760 | 38,530,092 |
| At December 31, 2018 | | | | | | | |
| Trade and other payables | - | 4,721,783 | - | - | - | 4,721,783 | 4,721,783 |
| Amounts due to related parties | - | 4,265,166 | - | - | - | 4,265,166 | 4,265,166 |
| Rental deposits received | - | 36,009 | 28,364 | 77,948 | - | 142,321 | 142,321 |
| Bank and trust borrowings | | | | | | | |
| – Fixed interest rate borrowings | 4.75%-12.00% | 7,951,969 | 3,628,426 | 1,885,952 | 3,722,087 | 17,188,434 | 14,528,642 |
| – Variable interest rate borrowings | 4.75%-8.50% | 2,448,866 | 1,871,225 | 2,835,870 | 3,165,284 | 10,321,245 | 8,770,342 |
| Corporate bonds | 5.47%-7.64% | 1,056,964 | 58,634 | - | - | 1,115,598 | 1,053,435 |
| Senior notes | 7.82%-11.94% | 4,002,961 | 720,636 | - | - | 4,723,597 | 4,445,783 |
| | | 24,483,718 | 6,307,285 | 4,799,770 | 6,887,371 | 42,478,144 | 37,927,472 |
| Financial guarantee contracts | | 7,695,016 | - | - | - | 7,695,016 | - |
| | | 32,178,734 | 6,307,285 | 4,799,770 | 6,887,371 | 50,173,160 | 37,927,472 |

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51. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Liquidity risk management (Continued)

The amounts included above for financial guarantee contracts are the maximum amounts the Group could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Group considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

Fair value

The Group's investment in unlisted investments were measured at fair value, are grouped into Level 3.

| Financial assets | Fair value as at | | |
|---|--|--|----------------------|
| | December 31, 2019 | December 31, 2018 | Fair value hierarchy |
| Equity investments at fair value through other comprehensive income (see note 23) | 0.15% equity investment in Bohai Life Limited – RMB27,400,000 and 10% equity investment in Yongqing Jiyin Rural Bank – RMB5,000,000 | 1.23% equity investment in Bohai Life Limited – RMB215,307,000 and 10% equity investment in Yongqing Jiyin Rural Bank – RMB5,000,000 | Level 3 |

Except as disclosed in notes 39 and 40, the Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the consolidated financial statements approximate their fair values.

52. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the consolidated financial statements, the Group has the following related party balances and transactions.

A. The following parties are identified as related parties to the Group and the respective relationships are set out below:

| Name of related party | Relationship |
|---|--|
| Mr. Zhang Zhangsun | Executive Director and controlling shareholder of the Group |
| Ms. Ruan Wenjuan | Executive Director and spouse of Mr. Zhang Zhangsun |
| Ms. Zhang Jin | Executive Director and daughter of Mr. Zhang Zhangsun |
| Mr. Zhang zhangqiao | Younger brother of Mr. Zhang zhangsun |
| Beijing Glory Commercial Management Co., Ltd.* ("Glory Commercial Management") 北京國瑞興業商業管理有限公司 | Controlled by Ms. Zhang Jin |
| Jinming Wujin Material Co., Ltd.* ("Jinming Wujin") 汕頭市金明五金材料有限公司 | Controlled by Mr. Zhang Zhangsun |
| Foshan Yinhe Ruixing Commercial Management Co., Ltd.* ("Foshan Yinhe") 佛山市銀和瑞興商業管理有限公司 | Controlled by Ms. Zhang Jin |
| Shenyang Glory Xingda Management Co., Ltd* ("Shenyang Xingda") 沈陽國瑞興達企業管理有限公司 | Controlled by Ms. Zhang Jin |
| Longhu Huamu | Controlled by Ms. Zhang Youxi, sister of Mr. Zhang Zhangsun |
| Shantou Garden Hotel Management Co., Ltd.* ("Shantou Garden Hotel") 汕頭市花園賓館管理有限公司 | Controlled by Mr. Zhang Zhangsun |
| Beijing Glory Property Services Co., Ltd.* ("Glory Services") 北京國瑞物業服務有限公司 | Controlled by Mr. Zhang Zhangsun |
| Alltogether Land | Parent and ultimate holding company controlled by Mr. Zhang Zhangsun |
| Shenzhen Glory Industrial | Controlled by Mr. Zhang Zhangsun |
| Maorui Zhiye | Joint Venture |
| Ruida Zhiye. | Associate |

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

52. RELATED PARTY TRANSACTIONS (Continued)

A. The following parties are identified as related parties to the Group and the respective relationships are set out below: (Continued)

| Name of related party | Relationship |
|---|---|
| Ruimao Real Estate | Joint venture |
| Guangdong Guosha Investment Holding Group Co., Ltd ("Guangdong Guosha Investment") 廣東國廈投資控股集團有限公司 | Controlled by Mr. Zhang Zhangqiao |
| Hainan Glory Commercial Management Co., Ltd.* ("Hainan Glory Commercial Management") 海南國瑞興業商業管理有限公司 | Controlled by Ms. Zhang Jin |
| Xi'an Ruihe Xingda Commercial Management Co., Ltd.* ("Xi'an Ruihe") 西安瑞和興達商業管理有限公司 | Controlled by Ms. Zhang Jin |
| Wuxi Glory | Associate |
| Shantou Garden Property Services Co., Ltd.* ("Shantou Garden Services") 汕頭市花園物業管理有限公司 | Controlled by Ms. Zhang Jin |
| Beijing Guoyin Investment Fund Management Co., Ltd. ("Guoyin Fund Investment Management") 北京國銀投資基金管理有限公司 | Controlled by Ms. Zhang Jin |
| Tung Wo International Investment Limited ("Tung Wo International") | Controlled by Mr. Zhang Zhangsun |
| Beijing Yinhe Guorui Commercial Investment Co., Ltd ("Beijing Yinhe") 北京銀和國瑞商業投資有限公司 | Controlled by Ms. Zhang Jin |
| Beijing Dayuan Tongrui Investment Center (limited partnership) ("Beijing Dayuan Tongrui") 北京達源通瑞投資中心 (有限合夥) | Controlled by Ms. Zhang Jin |
| Beijing Huirui Capital Investment Co., Ltd ("Beijing Huirui") 北京匯瑞資本投資有限公司 | Controlled by Ms. Zhang Youxi, sister of Mr. Zhang Zhangsun |
| Shijizhuang Guolong | Controlled by Ms. Zhang Youxi, sister of Mr. Zhang Zhangsun |

* The English name of the companies established in the PRC are for reference only and have not been registered.

52. RELATED PARTY TRANSACTIONS (Continued)

- B. At the end of the reporting period, the Group has deposit paid to or amounts receivable from the following related parties and the details are set out below:

| Name of related party | At December 31, | |
|------------------------------------|------------------|-----------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| Trade nature (Note (i)): | | |
| Foshan Yinhe | 22,432 | 16,772 |
| Beijing Dayuan Tongrui | 2,150 | – |
| Beijing Huirui | 7,204 | – |
| Guoyin Fund Investment Management | 228 | – |
| | 32,014 | 16,772 |
| Non-trade nature (Note (ii)): | | |
| Guangdong Guosha Investment | 2,817,490 | 462,224 |
| Ruida Zhiye | 1,301,157 | 970,520 |
| Maorui Zhiye | 135,095 | 511,390 |
| Wuxi Glory | 76,521 | 124,439 |
| Glory Services | 20,171 | 6,360 |
| Foshan Yinhe | 17,001 | 14,645 |
| Ruimao Real Estate | 16,580 | 458,376 |
| Glory Commercial Management | 14,573 | 12,855 |
| Shenzhen Glory Industrial | 9,110 | 5,000 |
| Alltogether Land | 5,811 | 145 |
| Jinming Wujin | 5,689 | – |
| Longhu Huamu | 4,000 | 4,000 |
| Xi'an Ruihe | 3,011 | 440 |
| Hainan Glory Commercial Management | 1,264 | 847 |
| Shenyang Xingda | 1,160 | 860 |
| Mr. Zhang Zhangsun | 7 | – |
| Tung Wo International | 2 | – |
| | 4,428,642 | 2,572,101 |
| Total | 4,460,656 | 2,588,873 |
| Allowance for credit losses | (19,800) | – |
| Total | 4,440,856 | 2,588,873 |

Notes:

- (i) Balances of trade nature are unsecured, interest free and aged within one year.
- (ii) Balances of non-trade nature are unsecured and repayable on demand. Included in the balances were RMB1,232,085,000 (2018: RMB1,836,479,000) bearing interest ranging from 4.35% to 9.30% (2018: 4.35% to 9.30%).

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

52. RELATED PARTY TRANSACTIONS (Continued)

- B. At the end of the reporting period, the Group has deposit paid to or amounts receivable from the following related parties and the details are set out below: (Continued)**

| Maximum amount outstanding for non-trade receivables | Year ended December 31, | |
|---|-------------------------|------------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| Guangdong Guosha Investment | 2,817,490 | 462,223 |
| Ruida Zhiye | 1,301,157 | 2,073,866 |
| Maorui Zhiye | 511,390 | 827,914 |
| Ruimao Real Estate | 458,376 | 458,376 |
| Wuxi Glory | 124,439 | 124,439 |
| Glory Services | 20,171 | 6,360 |
| Foshan Yinhe | 17,001 | 14,645 |
| Glory Commercial Management | 14,573 | 12,855 |
| Shenzhen Glory Industrial | 9,110 | 5,000 |
| Alltogether Land | 5,811 | 145 |
| Jinming Wujin | 5,689 | – |
| Longhu Huamu | 4,000 | 4,000 |
| Xi'an Ruihe | 3,011 | 440 |
| Hainan Glory Commercial Management | 1,264 | 847 |
| Shenyang Xingda | 1,160 | 860 |
| Mr. Zhang Zhangsun | 7 | – |
| Tung Wo International | 2 | – |
| Total | 5,294,651 | 3,991,970 |

52. RELATED PARTY TRANSACTIONS (Continued)

- C. At the end of the reporting period, the Group has amounts due to the following related parties and the details are set out below:

| Name of related party | At December 31, | |
|--------------------------------------|------------------|-----------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| Trade nature: <i>(Note (i))</i> | | |
| Glory Services | 11,252 | 12,055 |
| Glory Commercial Management | 32,212 | 45 |
| Shenyang Xingda | 674 | 347 |
| | 44,138 | 12,447 |
| Non-trade nature: <i>(Note (ii))</i> | | |
| Guangdong Guoxia Investment | 2,713,155 | 1,415,906 |
| Longhu Huamu | 1,427,788 | 1,528,011 |
| Alltogether Land <i>(Note (iii))</i> | 717,242 | 1,225,142 |
| Ruimao Real Estate | 419,147 | 82,820 |
| Glory Services | 189 | – |
| Beijing Yinhe | 148 | – |
| Tung Wo International | 200 | – |
| Shantou Garden Services | – | 650 |
| Jinming Wujin | – | 190 |
| | 5,277,869 | 4,252,719 |
| Total | 5,322,007 | 4,265,166 |

Notes:

- (i) Balances of trade nature are unsecured, interest free, and aged within one year.
- (ii) Balances of non-trade nature are unsecured, interest free and repayable on demand.
- (iii) The amount represented dividend payable and advance from shareholder of the Company recorded under amounts due to related parties.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

52. RELATED PARTY TRANSACTIONS (Continued)

- D. During the reporting period, the Group entered into the following transactions with its related parties:

| Name of related party | Nature of transaction | Year ended December 31, | |
|---|----------------------------------|-------------------------|-----------------|
| | | 2019 RMB'000 | 2018 RMB'000 |
| Trade nature Glory Commercial Management | Property management services fee | 35,852 | 26,658 |
| Foshan Yinhe | Property management services fee | - | 514 |
| Shenyang Xingda | Property management services fee | - | 2,715 |
| Glory Services | Property management services fee | 24,447 | 10,925 |

Except for the transactions above, in 2019, the Group disposal of 55% equity interest in Chaotuan Trade to a related party at a nominal amount. Details of the disposal are set out in note 45.

- E. Mr. Zhang Zhangsun and Ms. Ruan Wenjuan have provided guarantees for certain bank loans and trust loans granted to the Group for nil consideration. As at December 31, 2019, the Group has bank loans and other loans guaranteed by Mr. Zhang Zhangsun and Ms. Ruan Wenjuan amounting to RMB13,129,073,000 (December 31, 2018: RMB10,030,182,000).

Mr. Zhang Zhangqiao and his spouse have provided guarantees for certain bank loans and trust loans granted to the Group for nil consideration. As at December 31, 2019, the Group has bank loans and other loans guaranteed by Mr. Zhangqiao and his spouse amounting to RMB1,117,524,000 (December 31, 2018: RMB564,700,000).

Longhu Huamu has provided guarantees for certain bank loans and other loans granted to the Group for nil consideration. As at December 31, 2019, no bank loans and other loans guaranteed by Longhu Huamu (December 31, 2018: RMB1,389,132,000).

52. RELATED PARTY TRANSACTIONS (Continued)

- F.** As at December 31, 2019, Handan Guoxia has provided guarantee for a bank borrowing granted to the Shijiazhuang Guolong, a company controlled by Mr. Zhang Zhangqiao, of which the bank borrowing guaranteed by the Group was amounting to RMB100,000,000.

As at December 31, 2019, Garden Group has provided guarantee to a bank for a banking facility granted to the Ruida Zhiye, of which the bank borrowing guaranteed by the Group was amounting to RMB799,785,000.

G. Key management personnel emoluments

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including directors and other key management of the Group. The key management personnel compensation is as follows:

| | At December 31, | |
|-------------------------------------|-----------------|-----------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| Short-term employee benefits | 26,210 | 25,788 |
| Retirement benefit contributions | 508 | 596 |
| Equity-settled share-based payments | – | – |
| | 26,718 | 26,384 |

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53. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at the end of the reporting period are set out below.

| Name of subsidiaries | Place of incorporation/ establishment | Issued and fully paid share capital/ paid up capital | Attributable equity interest of the Group | | Principal activities |
|---|---------------------------------------|--|---|------|---|
| | | | At December 31, 2019 | 2018 | |
| Garden Group* ^ | PRC | Paid up capital RMB48,000,000 | 100% | 100% | Investment holding |
| Glory Industrial* | PRC | Paid up capital RMB458,224,110 | 91% | 91% | Property development and rental business |
| Shantou Glory Construction Materials and Household Exhibition Center Co., Ltd.* 汕頭國瑞建材家居博覽中心有限公司 | PRC | Paid up capital RMB200,000,000 | 90% | 90% | Rental business |
| Original Beijing Glory* | PRC | Paid up capital RMB1,166,000,000 | 80% | 80% | Property development primary land construction development services and rental business |
| New Beijing Glory* | PRC | Paid up capital RMB52,000,000 | 80% | 80% | Rental business |
| Glory Investment* | PRC | Paid up capital RMB10,000,000 | 80% | 80% | Property development |
| Wanning Glory Real Estate Development Co., Ltd.* 萬寧國瑞房地產開發有限公司 | PRC | Paid up capital RMB30,000,000 | 80% | 80% | Property development |
| Hainan Tongcheng Industrial Co., Ltd.* 海南同城實業有限公司 | PRC | Paid up capital RMB74,270,000 | 80% | 80% | Property development |
| Hainan Nanduijiang Industrial Development Co., Ltd.* 海南南渡江實業發展有限公司 | PRC | Paid up capital RMB20,030,000 | 80% | 80% | Property development |
| Haikou Hangrui Development Industrial Co., Ltd.* ("Haikou Hangrui") 海口航瑞實業發展有限公司 | PRC | Paid up capital RMB110,104,100 | 80% | 80% | Property development |

53. PRINCIPAL SUBSIDIARIES (Continued)

| Name of subsidiaries | Place of incorporation/ establishment | Issued and fully paid share capital/ paid up capital | Attributable equity interest of the Group At December 31, | | Principal activities |
|---|---------------------------------------|--|---|------|----------------------|
| | | | 2019 | 2018 | |
| Hainan Glory Investment* | PRC | Paid up capital RMB466,869,243 | 80% | 80% | Property development |
| Xinzheng Glory Real Estate Development Co., Ltd.* 新鄭市國瑞房地產開發有限公司 | PRC | Paid up capital RMB100,000,000 | 80% | 80% | Property development |
| Foshan Glory Xingye Real Estate Co., Ltd* 佛山市國瑞興業地產有限公司 | PRC | Paid up capital RMB10,000,000 | 80% | 80% | Property development |
| Foshan Guohua* (note (c)) | PRC | Paid up capital RMB100,000,000 | 44% | 44% | Property development |
| Langfang Guosheng Real Estate Development Co., Ltd.* 廊坊國盛房地產開發有限公司 | PRC | Paid up capital RMB30,000,000 | 80% | 80% | Property development |
| Langfang Glory* | PRC | Paid up capital RMB150,000,000 | 80% | 80% | Property development |
| Langfang Guoxing * ^ | PRC | Paid up capital RMB2,011,667,394 | 100% | 100% | Property development |
| Shenyang Dadongfang Property Development Co., Ltd* 瀋陽大東方置業有限公司 | PRC | Paid up capital RMB186,362,194 | 80% | 80% | Property development |
| Shenyang Glory Industrial Commerce Co., Ltd.* 瀋陽國瑞興業商務有限公司 | PRC | Paid up capital RMB1,000,000 | 80% | 80% | Rental business |
| Shaanxi Huawei Shida Industrial Co., Ltd* 陝西華威世達實業有限公司 | PRC | Paid up capital RMB200,000,000 | 80% | 80% | Property development |
| Hainan Junhe* | PRC | Paid up capital RMB50,000,000 | 80% | 80% | Property development |
| Beijing Wenhushengda* | PRC | Paid up capital RMB50,000,000 | 80% | 80% | Property development |

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For the year ended December 31, 2019

53. PRINCIPAL SUBSIDIARIES (Continued)

| Name of subsidiaries | Place of incorporation/ establishment | Issued and fully paid share capital/ paid up capital | Attributable equity interest of the Group | | Principal activities |
|--|---------------------------------------|--|---|------|--|
| | | | At December 31, 2019 | 2018 | |
| Foshan Glory Southern* | PRC | Paid up capital RMB33,330,000 | 80% | 80% | Property development and rental business |
| Shenzhen Wanji* | PRC | Paid up capital RMB130,000,000 | 80% | 80% | Rental business |
| Shenyang Guoyi Business Management Co., Ltd.* 瀋陽國益商業管理有限公司 | PRC | Paid up capital RMB20,000,000 | 80% | 80% | Rental business |
| Shenyang Guorui Business Management Co., Ltd.* 瀋陽國瑞商業管理有限公司 | PRC | Paid up capital RMB50,000,000 | 80% | 80% | Rental business |
| Shenyang Guosheng Business Management Co., Ltd.* 瀋陽國盛商業管理有限公司 | PRC | Paid up capital RMB30,000,000 | 80% | 80% | Rental business |
| Shantou Glory* | PRC | Paid up capital RMB200,000,000 | 80% | 80% | Property development |
| Suzhou Glory* | PRC | Paid up capital RMB50,000,000 | 80% | 80% | Property development |
| Qidong Yujiangwan* | PRC | Paid up capital RMB50,000,000 | 72% | 72% | Property development |
| Yaoji (Nantong) Industrial Co., Ltd.* 姚記(南通)實業有限公司 | PRC | Paid up capital RMB102,500,000 | 72% | 72% | Property development |
| Shantou Glory Properties Co., Ltd.* 汕頭市國瑞置業有限公司 | PRC | Paid up capital RMB920,100,000 | 100% | 100% | Property development |
| Shenzhen Dachaoshan* | PRC | Paid up capital RMB180,093,000 | 85% | 85% | Property development |
| Beijing Deheng* | PRC | Paid up capital RMB50,000,000 | 80% | 80% | Property development |

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53. PRINCIPAL SUBSIDIARIES (Continued)

| Name of subsidiaries | Place of incorporation/ establishment | Issued and fully paid share capital/ paid up capital | Attributable equity interest of the Group At December 31, | | Principal activities |
|--|---------------------------------------|--|---|--------------------------|----------------------|
| | | | 2019 | 2018 | |
| Chaotuan Trade * ^ | PRC | Paid up capital — | N/A <i>note(45)</i> | 55% | Property development |
| Wuxi Glory * | PRC | Paid up capital — | N/A | N/A <i>note(45)</i> | Property development |
| Foshan Guofeng Estate Development Co., Ltd. * 佛山市國豐地產開發有限公司 | PRC | Paid up capital RMB10,000,000 | 80% | 80% | Property development |
| Tongren Glory Real Estate Development Co., Ltd. * 銅仁國瑞房地產開發有限公司 | PRC | Paid up capital — | 100% | 100% <i>(Note(b))</i> | Property Development |
| Chongqing Guosha * | PRC | Paid up capital RMB40,820,000 | 51% | 51% <i>(Note(d))</i> | Property Development |
| Handan Guoxia * | PRC | Paid up capital RMB153,850,000 | 35% | 35% <i>(Note(d))</i> | Property Development |
| Sanya Jingheng * | PRC | Paid up capital RMB815,380,000 | 35% | 35% <i>(Note(d))</i> | Property Development |
| Tianjin Tianfu Rongsheng * | PRC | Paid up capital RMB615,380,000 | 35% | 35% <i>(Note(d))</i> | Property Development |
| Guangdong Hongtaiguotong * | PRC | Paid up capital RMB153,850,000 | 35% | 35% <i>(Note(d))</i> | Property Development |
| Guangdong Guosha * | PRC | Paid up capital RMB20,410,000 | 68% | 68% <i>(Note(d))</i> | Property Development |
| Jiangmen Yinghuiwan * | PRC | Paid up capital RMB337,960,000 | 52% | 52% <i>(Note(d))</i> | Property Development |
| Shijiazhuang Guosha * | PRC | Paid up capital RMB102,040,000 | 51% | 51% <i>(Note(d))</i> | Property Development |

* The English name of the companies which were established in the PRC are for reference only and have not been registered.

^ These companies are wholly foreign owned enterprises established in the PRC. All other entities established in the PRC are limited liability companies.

Notes to the Consolidated Financial Statements

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53. PRINCIPAL SUBSIDIARIES (Continued)

Notes:

- (a) Except Garden Group, none of other subsidiaries had issued any debt securities at the end of each reporting period or at any time during the reporting period.
- (b) The subsidiary is newly established during the year ended December 31, 2018.
- (c) Garden Group held 80% equity interest in New Beijing Glory, which held 55% equity interest in Foshan Guohua. Therefore, the Company indirectly held 44% equity interest in Foshan Guohua.
- (d) These subsidiaries were acquired during the year ended December 31, 2018. Details are set out in note 44. Upon completion of the capital contribution, the Group held 35% equity interests of Guangdong Hongtaiguotong, Tianjin Tianfurongsheng, Sanya Jingheng and Handan Guoxia. According to the articles of association of these entities, the Group has 67% voting rights in the shareholders' meeting and has right to appoint 2 out of 3 directors in the board of directors of these entities. Resolutions in shareholders' meeting of these entities are passed by more than two-thirds voting rights and in the board of directors of these entities are passed by majority votes. Therefore, the Directors concluded that the Group has control over those entities.
- (e) All subsidiaries which set out above operate in the PRC.

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

At the end of the reporting period, the Company has other subsidiaries that are not material to the Group. Majority of these subsidiaries operate in the PRC, Hong Kong and British Virgin Islands ("BVI"). The principal activities of these subsidiaries are summarized as follows:

| Principal activities | Principal place of business | Number of subsidiaries | |
|----------------------|-----------------------------|------------------------|-------------------|
| | | December 31, 2019 | December 31, 2018 |
| Property development | PRC | 49 | 50 |
| Investment holding | Hong Kong | 11 | 11 |
| Investment holding | BVI | 3 | 3 |
| | | 63 | 64 |

53. PRINCIPAL SUBSIDIARIES (Continued)

The table below shows details of non-wholly owned subsidiaries of the Company that have material non-controlling interests:

| Name of subsidiaries | Place of establishment and principal place of business | Proportion of ownership interests and voting rights held by non-controlling interests | Profit (loss) | Accumulated |
|---|--|---|---|--------------------------------------|
| | | | allocated to non-controlling interests RMB'000 | non-controlling interests RMB'000 |
| At December 31, 2019 | | | | |
| Glory Industrial | PRC | 9% | 2,606 | 167,147 |
| Original Beijing Glory | PRC | 20% | 116,118 | 1,514,132 |
| Shenzhen Dachao Shan | PRC | 15% | (380) | 152,760 |
| New Beijing Glory (excluding non-controlling interests of New Beijing Glory's subsidiaries) (Note) | PRC | 20% | 119,276 | 378,940 |
| Non-wholly owned subsidiaries of | | | | |
| New Beijing Glory | | | | |
| – Foshan Guohua | PRC | 45% | 62,310 | 82,392 |
| – Qidong Yujiangwan | PRC | 10% | (2,948) | 180,759 |
| – Individual immaterial subsidiaries with non-controlling interests | PRC | | (292) | 5,006 |
| Guangdong Hongtaiguotong | PRC | 65% | 79,837 | 1,143,801 |
| Shijiazhuang Guosha | PRC | 49% | (16,326) | 422,020 |
| Chongqing Guosha | PRC | 49% | 78,951 | 198,247 |
| Handan Guoxia | PRC | 65% | 3,544 | 246,798 |
| Sanya Jingheng | PRC | 65% | (10,193) | 688,989 |
| Jiangmen Yinghuiwan | PRC | 48% | (3,962) | 221,686 |
| Tianjin Tianfurogsheng | PRC | 65% | (10,656) | 445,184 |
| Guangdong Guosha | PRC | 32% | (1,580) | 39,188 |
| Total | | | 416,305 | 5,887,049 |

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53. PRINCIPAL SUBSIDIARIES (Continued)

The table below shows details of non-wholly owned subsidiaries of the Company that have material non-controlling interests: (Continued)

| Name of subsidiaries | Place of establishment and principal place of business | Proportion of ownership interests and voting rights held by non-controlling interests | Profit (loss) allocated to non-controlling interests RMB'000 | Accumulated non-controlling interests RMB'000 |
|---|--|---|---|--|
| At December 31, 2018 | | | | |
| Glory Industrial | PRC | 9% | 808 | 164,541 |
| Original Beijing Glory | PRC | 20% | 127,295 | 1,422,014 |
| Shenzhen Dachaoshan | PRC | 15% | (733) | 153,140 |
| New Beijing Glory (excluding non-controlling interests of New Beijing Glory's subsidiaries) (Note) | PRC | 20% | 96,423 | 309,064 |
| Non-wholly owned subsidiaries of New Beijing Glory | | | | |
| – Foshan Guohua | PRC | 45% | 76,619 | 74,082 |
| – Qidong Yujiangwan | PRC | 10% | (3,440) | 183,707 |
| – Individual immaterial subsidiaries with non-controlling interests | PRC | | (106) | 9,849 |
| Guangdong Hongtaiguotong | PRC | 65% | 269,007 | 1,063,964 |
| Shijiazhuang Guosha | PRC | 49% | (719) | 438,346 |
| Chongqing Guosha | PRC | 49% | 19,344 | 119,296 |
| Handan Guoxia | PRC | 65% | (3,561) | 243,254 |
| Sanya Jingheng | PRC | 65% | (8,752) | 699,182 |
| Jiangmen Yinghuiwan | PRC | 48% | (4,470) | 225,648 |
| Tianjin Tianfurongsheng | PRC | 65% | (9,415) | 455,840 |
| Guangdong Guosha | PRC | 32% | (285) | 40,768 |
| Total | | | 558,015 | 5,602,695 |

Note: The summarized financial information disclosed below comprised of the financial information of New Beijing Glory and its wholly-owned subsidiaries.

Summarized financial information in respect of each of the Group's subsidiaries that has material non-controlling interest is set out below. The summarized financial information below represents amounts before intragroup eliminations.

53. PRINCIPAL SUBSIDIARIES (Continued)

Glory Industrial

| | At December 31, | |
|---|-----------------|-----------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| Current assets | 4,008,548 | 3,943,709 |
| Non-current assets | 1,081,174 | 1,252,074 |
| Current liabilities | (2,653,972) | (2,744,593) |
| Non-current liabilities | (578,560) | (622,958) |
| Equity attributable to owners of the Company | 1,690,043 | 1,663,691 |
| Non-controlling interests of Glory Industrial | 167,147 | 164,541 |

| | Year ended December 31, | |
|--|-------------------------|-----------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| Revenue | 71,886 | 39,492 |
| Gain on fair value change of investment properties | 18,200 | 14,900 |
| Cost of sales and service and expenses | (64,049) | (38,219) |
| Profit for the year | 26,037 | 16,173 |
| Other comprehensive income for the year | 2,920 | (7,195) |
| Profit and total comprehensive income for the year | 28,957 | 8,978 |
| Profit and total comprehensive income attributable to: | | |
| – the owners of the Company | 26,351 | 8,170 |
| – non-controlling interests of Glory Industrial | 2,606 | 808 |
| | 28,957 | 8,978 |
| Net cash inflow from operating activities | 90,100 | 268,148 |
| Net cash inflow from investing activities | 49 | 49 |
| Net cash outflow from financing activities | (96,664) | (252,655) |
| Net cash (outflow) inflow from the above activities | (6,515) | 15,542 |

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For the year ended December 31, 2019

53. PRINCIPAL SUBSIDIARIES (Continued)

Original Beijing Glory

| | At December 31, | |
|---|-----------------|-----------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| Current assets | 17,935,087 | 21,557,659 |
| Non-current assets | 15,208,462 | 15,006,299 |
| Current liabilities | (17,020,517) | (18,956,952) |
| Non-current liabilities | (8,552,375) | (10,496,937) |
| Equity attributable to owners of the Company | 6,056,525 | 5,688,055 |
| Non-controlling interests of Original Beijing Glory | 1,514,132 | 1,422,014 |

| | Year ended December 31, | |
|---|-------------------------|-----------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| Revenue | 2,980,325 | 630,178 |
| Gain on fair value change of investment properties | 490,000 | 637,637 |
| Cost of sales and expenses | (2,889,737) | (631,342) |
| Profit for the year and total comprehensive income for the year | 580,588 | 636,473 |
| Total comprehensive income attributable to: | | |
| – the owners of the Company | 464,470 | 509,178 |
| – non-controlling interests of Original Beijing Glory | 116,118 | 127,295 |
| | 580,588 | 636,473 |
| Dividend paid to non-controlling interests | (24,000) | – |
| Net cash inflow (outflow) from operating activities | 1,320,738 | (1,792,828) |
| Net cash inflow from investing activities | 273,848 | 58,238 |
| Net cash (outflow) inflow from financing activities | (1,866,955) | 1,427,248 |
| Net cash outflow from the above activities | (272,369) | (307,342) |

53. PRINCIPAL SUBSIDIARIES (Continued)

Shenzhen Dachaoshan

| | At December 31, | |
|--|-----------------|-----------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| Current assets | 73,115 | 74,336 |
| Non-current assets | 1,227,790 | 1,069,638 |
| Current liabilities | (442,416) | (291,686) |
| Equity attributable to owners of the Company | 705,729 | 699,148 |
| Non-controlling interests of Shenzhen Dachaoshan | 152,760 | 153,140 |

| | Year ended December 31, | |
|---|-------------------------|-----------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| Revenue | – | (2) |
| Cost of sales and expenses | (2,534) | (3,385) |
| Loss and total comprehensive expense for the year | (2,534) | (3,387) |
| Total comprehensive expense attributable to: | | |
| – the owners of the Company | (2,154) | (2,654) |
| – non-controlling interests of Shenzhen Dachaoshan | (380) | (733) |
| | (2,534) | (3,387) |
| Net cash outflow from operating activities | (151,560) | (26,019) |
| Net cash outflow from investing activities | (31) | (8) |
| Net cash inflow from financing activities | 151,602 | 25,994 |
| Net cash inflow (outflow) from the above activities | 11 | (33) |

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For the year ended December 31, 2019

53. PRINCIPAL SUBSIDIARIES (Continued)

New Beijing Glory and subsidiaries

| | At December 31, | |
|---|-----------------|-----------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| Current assets | 39,783,902 | 36,565,497 |
| Non-current assets | 4,961,183 | 3,653,515 |
| Current liabilities | (36,928,560) | (34,844,226) |
| Non-current liabilities | (5,653,668) | (3,561,828) |
| Equity attributable to owners of the Company | 1,515,760 | 1,236,256 |
| Non-controlling interests of New Beijing Glory | 378,940 | 309,064 |
| Non-controlling interests of New Beijing Glory's subsidiaries | 268,157 | 267,638 |

| | Year ended December 31, | |
|---|-------------------------|-----------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| Revenue | 2,844,366 | 3,442,777 |
| Gain on fair value change of investment properties | 490,268 | 207,072 |
| Cost of sales and expense | (2,679,184) | (3,094,662) |
| Profit and total comprehensive income for the year | 655,450 | 555,187 |
| Profit and total comprehensive income attributable to: | | |
| – the owners of the Company | 477,104 | 385,691 |
| – non-controlling interests of New Beijing Glory | 119,276 | 96,423 |
| – non-controlling interests of New Beijing Glory's subsidiaries | 59,070 | 73,073 |
| | 655,450 | 555,187 |
| Dividend paid to non-controlling interests of New Beijing Glory | (49,400) | (135,000) |
| Net cash inflow from operating activities | 2,052,709 | 8,739,925 |
| Net cash (outflow) inflow from investing activities | (408,252) | 183,840 |
| Net cash outflow from financing activities | (2,043,828) | (9,403,740) |
| Net cash outflow from the above activities | (399,371) | (479,975) |

53. PRINCIPAL SUBSIDIARIES (Continued)

Foshan Guohua (non-wholly owned subsidiary of New Beijing Glory)

| | At December 31, | |
|--|-----------------|-----------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| Current assets | 3,294,529 | 4,538,630 |
| Non-current assets | 41,135 | 25,861 |
| Current liabilities | (2,765,635) | (3,149,864) |
| Non-current liabilities | (386,937) | (1,250,000) |
| Equity attributable to owners of New Beijing Glory | 100,700 | 90,545 |
| Non-controlling interests of Foshan Guohua | 82,392 | 74,082 |

| | Year ended December 31, | |
|---|-------------------------|-----------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| Revenue | 509,066 | 592,691 |
| Cost of sales and service and expenses | (370,601) | (422,426) |
| Profit and total comprehensive income for the year | 138,465 | 170,265 |
| Profit and total comprehensive income attributable to: | | |
| – the owners of New Beijing Glory | 76,155 | 93,646 |
| – non-controlling interests of Foshan Guohua | 62,310 | 76,619 |
| | 138,466 | 170,265 |
| Dividend paid to non-controlling interests of Foshan Guohua | (54,000) | (135,000) |
| Net cash inflow from operating activities | 518,671 | 110,731 |
| Net cash inflow from investing activities | 346 | 375 |
| Net cash outflow from financing activities | (466,629) | (171,731) |
| Net cash inflow (outflow) from the above activities | 52,388 | (60,625) |

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

53. PRINCIPAL SUBSIDIARIES (Continued)

Qidong Yujiangwan (non-wholly owned subsidiary of New Beijing Glory)

| | At December 31, | |
|--|-----------------|-----------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| Current assets | 5,608,792 | 4,476,752 |
| Non-current assets | 57,416 | 47,820 |
| Current liabilities | (4,135,193) | (2,922,118) |
| Non-current liabilities | (564,543) | (606,500) |
| Equity attributable to owners of New Beijing Glory | 785,713 | 812,247 |
| Non-controlling interests of Qidong Yujiangwan | 180,759 | 183,707 |

| | Year ended December 31, | |
|---|-------------------------|-----------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| Cost of sales and service and expenses | (29,482) | (34,401) |
| Loss and total comprehensive expense for the year | (29,482) | (34,401) |
| Loss and total comprehensive expense attributable to: | | |
| – the owners of the Company | (26,534) | (30,961) |
| – non-controlling interests of Qidong Yujiangwan | (2,948) | (3,440) |
| | (29,482) | (34,401) |
| Net cash inflow from operating activities | 374,169 | 1,834,947 |
| Net cash outflow from investing activities | (208) | (16) |
| Net cash outflow from financing activities | (381,388) | (1,853,883) |
| Net cash outflow from the above activities | (7,427) | (18,952) |

53. PRINCIPAL SUBSIDIARIES (Continued)
Guangdong Hongtaiguotong

| | At December 31, | |
|---|---|--|
| | 2019 RMB'000 | 2018 RMB'000 |
| Current assets | 4,658,950 | 4,171,010 |
| Non-current assets | 31,195 | 25,285 |
| Current liabilities | (2,135,192) | (1,864,218) |
| Non-current liabilities | (795,259) | (695,209) |
| Equity attributable to owners of the Company | 615,893 | 572,904 |
| Non-controlling interests of Guangdong Hongtaiguotong | 1,143,801 | 1,063,964 |
| | | |
| | Year ended December 31, 2019 RMB'000 | Period from acquisition date to December 31, 2018 RMB'000 |
| Revenue | 503,620 | 1,593,627 |
| Cost of sales and service and expenses | (380,794) | (1,179,770) |
| Profit and total comprehensive income for the period | 122,826 | 413,857 |
| Profit and total comprehensive income attributable to: | | |
| – the owners of the Company | 42,989 | 144,850 |
| – non-controlling interests of Guangdong Hongtaiguotong | 79,837 | 269,007 |
| Net cash inflow (outflow) from operating activities | 652,349 | (1,245,547) |
| Net cash inflow from investing activities | 334 | 336 |
| Net cash (outflow) inflow from financing activities | (738,271) | 1,251,249 |
| Net cash (outflow) inflow from the above activities | (85,588) | 6,038 |

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

53. PRINCIPAL SUBSIDIARIES (Continued) Shijiazhuang Guosha

| | At December 31, | |
|---|---|--|
| | 2019 RMB'000 | 2018 RMB'000 |
| Current assets | 2,892,710 | 2,302,377 |
| Non-current assets | 589,097 | 334,531 |
| Current liabilities | (2,122,841) | (1,584,624) |
| Non-current liabilities | (497,701) | (157,701) |
| Equity attributable to owners of the Company | 439,245 | 456,237 |
| Non-controlling interests of Shijiazhuang Guosha | 422,020 | 438,346 |
| | | |
| | Year ended December 31, 2019 RMB'000 | Period from acquisition date to December 31, 2018 RMB'000 |
| Cost of sales and service and expenses | (33,318) | (1,468) |
| Loss and total comprehensive expense for the period | (33,318) | (1,468) |
| Loss and total comprehensive expense attributable to: | | |
| – the owners of the Company | (16,992) | (749) |
| – non-controlling interests of Shijiazhuang Guosha | (16,326) | (719) |
| Net cash inflow (outflow) from operating activities | 254,163 | (366,282) |
| Net cash (outflow) inflow from investing activities | (702) | 28 |
| Net cash (outflow) inflow from financing activities | (28,448) | 343,409 |
| Net cash inflow (outflow) from the above activities | 225,013 | (22,845) |

53. PRINCIPAL SUBSIDIARIES (Continued)

Chongqing Guosha

| | At December 31, | |
|---|-----------------|-----------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| Current assets | 1,046,424 | 1,407,876 |
| Non-current assets | 229,399 | 149,108 |
| Current liabilities | (837,942) | (1,262,525) |
| Non-current liabilities | (33,295) | (50,997) |
| Equity attributable to owners of the Company | 206,339 | 124,166 |
| Non-controlling interests of Chongqing Guosha | 198,247 | 119,296 |

| | Year ended | Period from |
|--|---------------------------------|---|
| | December 31, 2019 RMB'000 | acquisition date to December 31, 2018 RMB'000 |
| Revenue | 733,401 | 457,477 |
| Cost of sales and service and expenses | (572,277) | (417,999) |
| Profit and total comprehensive income for the period | 161,124 | 39,478 |
| Profit and total comprehensive income attributable to: | | |
| – the owners of the Company | 82,173 | 20,134 |
| – non-controlling interests of Chongqing Guosha | 78,951 | 19,344 |
| Net cash inflow (outflow) from operating activities | 166,559 | (516,725) |
| Net cash inflow from investing activities | 943 | 229 |
| Net cash (outflow) inflow from financing activities | (164,273) | 576,573 |
| Net cash inflow from the above activities | 3,229 | 60,077 |

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

53. PRINCIPAL SUBSIDIARIES (Continued)

Handan Guoxia

| | At December 31, | |
|--|-----------------|-----------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| Current assets | 2,897,183 | 1,794,424 |
| Non-current assets | 667,252 | 263,390 |
| Current liabilities | (3,113,657) | (1,608,917) |
| Non-current liabilities | (71,089) | (74,660) |
| Equity attributable to owners of the Company | 132,891 | 130,983 |
| Non-controlling interests of Handan Guoxia | 246,798 | 243,254 |

| | Year ended December 31, 2019 RMB'000 | Period from acquisition date to December 31, 2018 RMB'000 |
|---|---|--|
| Gain on fair value change of investment properties | 41,898 | 11,182 |
| Cost of sales and service and expenses | (36,446) | (16,661) |
| Profit (loss) and total comprehensive income (expense) for the period | 5,452 | (5,479) |
| Profit (loss) and total comprehensive income (expense) attributable to: | | |
| – the owners of the Company | 1,908 | (1,918) |
| – non-controlling interests of Handan Guoxia | 3,544 | (3,561) |
| Net cash outflow from operating activities | (355,149) | (1,398,996) |
| Net cash inflow from investing activities | 1,954 | 1,392 |
| Net cash inflow from financing activities | 467,933 | 1,254,333 |
| Net cash inflow (outflow) from the above activities | 114,738 | (143,271) |

53. PRINCIPAL SUBSIDIARIES (Continued)

Sanya Jingheng

| | At December 31, | |
|--|-----------------|-----------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| Current assets | 1,767,106 | 1,582,512 |
| Non-current assets | 80,332 | 19,604 |
| Current liabilities | (636,619) | (380,103) |
| Non-current liabilities | (150,836) | (146,348) |
| Equity attributable to owners of the Company | 370,994 | 376,483 |
| Non-controlling interests of Sanya Jingheng | 688,989 | 699,182 |

| | Year ended | Period from |
|---|---------------------------------|---|
| | December 31, 2019 RMB'000 | acquisition date to December 31, 2018 RMB'000 |
| Cost of sales and service and expenses | (15,682) | (13,465) |
| Loss and total comprehensive expense for the period | (15,682) | (13,465) |
| Loss and total comprehensive expense attributable to: | | |
| – the owners of the Company | (5,489) | (4,713) |
| – non-controlling interests of Sanya Jingheng | (10,193) | (8,752) |
| Net cash outflow from operating activities | (5,274) | (516,967) |
| Net cash inflow from investing activities | 1,654 | 79 |
| Net cash inflow from financing activities | 9,244 | 565,080 |
| Net cash inflow from the above activities | 5,624 | 48,192 |

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53. PRINCIPAL SUBSIDIARIES (Continued)

Jiangmen Yinghuiwan

| | At December 31, | |
|---|---|--|
| | 2019 RMB'000 | 2018 RMB'000 |
| Current assets | 1,559,289 | 863,058 |
| Non-current assets | 7,938 | 3,293 |
| Current liabilities | (760,943) | (182,453) |
| Non-current liabilities | (344,438) | (213,798) |
| Equity attributable to owners of the Company | 240,160 | 244,452 |
| Non-controlling interests of Jiangmen Yinghuiwan | 221,686 | 225,648 |
| | | |
| | Year ended December 31, 2019 RMB'000 | Period from acquisition date to December 31, 2018 RMB'000 |
| Cost of sales and service and expenses | (8,255) | (9,313) |
| Loss and total comprehensive expense for the period | (8,255) | (9,313) |
| Loss and total comprehensive expense attributable to: | | |
| – the owners of the Company | (4,293) | (4,843) |
| – non-controlling interests of Jiangmen Yinghuiwan | (3,962) | (4,470) |
| Net cash inflow (outflow) from operating activities | 408,855 | (324,873) |
| Net cash outflow from investing activities | (101) | (766) |
| Net cash (outflow) inflow from financing activities | (411,871) | 362,810 |
| Net cash (outflow) inflow from the above activities | (3,117) | 37,171 |

53. PRINCIPAL SUBSIDIARIES (Continued)

Tianjin Tianfurongsheng

| | At December 31, | |
|--|-----------------|-----------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| Current assets | 2,783,405 | 2,250,653 |
| Non-current assets | 106,867 | 88,689 |
| Current liabilities | (2,097,459) | (1,525,260) |
| Non-current liabilities | (107,914) | (112,789) |
| Equity attributable to owners of the Company | 239,715 | 245,453 |
| Non-controlling interests of Tianjin Tianfurongsheng | 445,184 | 455,840 |

| | Year ended | Period from |
|--|---------------------------------|---|
| | December 31, 2019 RMB'000 | acquisition date to December 31, 2018 RMB'000 |
| Revenue | 136,221 | – |
| Cost of sales and service and expenses | (152,615) | (14,485) |
| Loss and total comprehensive expense for the period | (16,394) | (14,485) |
| Loss and total comprehensive expense attributable to: | | |
| – the owners of the Company | (5,738) | (5,070) |
| – non-controlling interests of Tianjin Tianfurongsheng | (10,656) | (9,415) |
| Net cash inflow (outflow) from operating activities | 426,745 | (546,908) |
| Net cash inflow from investing activities | 590 | 197 |
| Net cash (outflow) inflow from financing activities | (469,331) | 687,293 |
| Net cash (outflow) inflow from the above activities | (41,996) | 140,582 |

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53. PRINCIPAL SUBSIDIARIES (Continued)

Guangdong Guosha

| | At December 31, | |
|---|---|--|
| | 2019 RMB'000 | 2018 RMB'000 |
| Current assets | 945,128 | 347,419 |
| Non-current assets | 8,585 | 355 |
| Current liabilities | (368,603) | (176,228) |
| Non-current liabilities | (462,647) | (44,147) |
| Equity attributable to owners of the Company | 83,275 | 86,631 |
| Non-controlling interests of Guangdong Guosha | 39,188 | 40,768 |
| | | |
| | Year ended December 31, 2019 RMB'000 | Period from acquisition date to December 31, 2018 RMB'000 |
| Cost of sales and service and expenses | (4,936) | (892) |
| Loss and total comprehensive expense for the period | (4,936) | (892) |
| Loss and total comprehensive expense attributable to: | | |
| – the owners of the Company | (3,356) | (607) |
| – non-controlling interests of Guangdong Guosha | (1,580) | (285) |
| Net cash (outflow) inflow from operating activities | (334,094) | 135,008 |
| Net cash inflow from investing activities | 13 | 23 |
| Net cash inflow (outflow) from financing activities | 355,287 | (134,356) |
| Net cash inflow from the above activities | 21,206 | 675 |

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54. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

| | Bank and trust borrowings RMB'000 (note 38) | Corporate bonds RMB'000 (note 39) | Senior notes RMB'000 (note 40) | Amounts due to related parties RMB'000 (note 52) | Lease liability RMB'000 | Others RMB'000 (Note) | Total RMB'000 |
|--|--|--|---|--|-------------------------------|-----------------------------|-------------------|
| At January 1, 2018 | 24,227,064 | 3,989,651 | 1,940,948 | 880,965 | - | 97,364 | 31,135,992 |
| Financing activities | (1,896,980) | (2,945,330) | 2,185,701 | 1,126,285 | - | (2,279,065) | (3,809,389) |
| Acquisitions of subsidiaries | 968,900 | - | - | 1,861,140 | - | - | 2,830,040 |
| Acquisition of an associate | - | - | - | (7,000) | - | - | (7,000) |
| Acquisition of partial interest in a subsidiary | - | - | - | - | - | 12,000 | 12,000 |
| Interest expenses | - | 9,114 | 37,583 | - | - | 2,212,852 | 2,259,549 |
| Exchange difference | - | - | 281,551 | 52,140 | - | - | 333,691 |
| Dividend declared to owners of the Company | - | - | - | 204,189 | - | 95,811 | 300,000 |
| Dividend declared to the non-controlling interests | - | - | - | 135,000 | - | 135,000 | 270,000 |
| At December 31, 2018 | 23,298,984 | 1,053,435 | 4,445,783 | 4,252,719 | - | 273,962 | 33,324,883 |
| Adjustment upon application of IFRS 16 | - | - | - | - | 1,127 | - | 1,127 |
| At January 1, 2019 | 23,298,984 | 1,053,435 | 4,445,783 | 4,252,719 | 1,127 | 273,962 | 33,326,010 |
| Financing activities | (3,276,104) | (543,218) | (314,732) | 760,118 | (815) | (143,623) | (3,518,374) |
| Acquisition of partial interest in a subsidiary in prior year | - | - | - | - | - | (12,000) | (12,000) |
| Acquisition of partial interest in a subsidiary | - | - | - | - | - | (4,551) | (4,551) |
| Interest expenses | 2,043,724 | 55,570 | 630,511 | - | 208 | 669,122 | 3,399,135 |
| Exchange difference | - | - | 49,732 | - | - | - | 49,732 |
| Dividend declared to owners of the Company | - | - | - | 191,632 | - | 28,368 | 220,000 |
| Dividend declared to the non-controlling interests | - | - | - | 73,400 | - | 54,000 | 127,400 |
| New leases entered | - | - | - | - | 4,054 | - | 4,054 |
| At December 31, 2019 | 22,066,604 | 565,787 | 4,811,294 | 5,277,869 | 4,574 | 865,278 | 33,591,406 |

Note: Others mainly include interest payables and dividend payable.

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55. EVENT AFTER THE REPORTING PERIOD

As the outbreak of novel coronavirus epidemic continues to spread across the global, the Group will continue to closely monitor the development of the novel coronavirus epidemic and ensure a stable operation. At the date of issuance of these consolidated financial statements, the impact of novel coronavirus epidemic on the Group's subsequent operating results is still under assessment.

56. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

| | At December 31, | |
|---|--------------------|-----------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| Non-current Assets | | |
| Unlisted investments in subsidiaries | 914,245 | 792,859 |
| Amounts due from subsidiaries | 5,661,327 | 6,069,686 |
| | 6,575,572 | 6,862,545 |
| Current Assets | | |
| Trade and other receivables, deposits and prepayments | 401 | 612 |
| Amounts due from subsidiaries | 234,000 | – |
| Bank balances and cash | 1,136 | 1,147 |
| | 235,537 | 1,759 |
| Current Liabilities | | |
| Trade and other payables | 110 | 100,544 |
| Senior notes | 1,734,974 | 3,768,364 |
| Amounts due to subsidiaries | 156,512 | 216,723 |
| Amount due to a related party | 717,242 | 1,225,142 |
| | 2,608,838 | 5,310,773 |
| Net Current Liabilities | (2,373,301) | (5,309,014) |
| Total Assets less Current Liabilities | 4,202,271 | 1,553,531 |
| Non-current Liability | | |
| Senior notes | 3,076,320 | 677,419 |
| | 3,076,320 | 677,419 |
| Net Assets | 1,125,951 | 876,112 |
| Capital and Reserves | | |
| Share capital | 3,520 | 3,520 |
| Reserves | 1,122,431 | 872,592 |
| Total Equity | 1,125,951 | 876,112 |

56. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY
(Continued)

Movement in the Company's reserves

| | Share premium RMB'000 | Capital reserve RMB'000 | Share-based payment reserve RMB'000 | Retained earnings RMB'000 | Total RMB'000 |
|--|-----------------------------|-------------------------------|--|---------------------------------|------------------|
| At January 1, 2018 | 306,015 | 56,242 | 39,669 | 187,437 | 589,363 |
| Profit and total comprehensive income for the year | – | – | – | 581,988 | 581,988 |
| Dividend declared to owners of the Company | (300,000) | – | – | – | (300,000) |
| Exercise of share options | 2,012 | – | (771) | – | 1,241 |
| At December 31, 2018 | 8,027 | 56,242 | 38,898 | 769,425 | 872,592 |
| Profit and total comprehensive income for the year | – | – | – | 469,839 | 469,839 |
| Dividend declared to owners of the Company | – | – | – | (220,000) | (220,000) |
| Lapse of share options | – | – | (3,158) | 3,158 | – |
| At December 31, 2019 | 8,027 | 56,242 | 35,740 | 1,022,422 | 1,122,431 |

INDEPENDENT AUDITOR'S REPORT

For the year ended December 31, 2018

Deloitte.

德勤

TO THE SHAREHOLDERS OF GUORUI PROPERTIES LIMITED (INCORPORATED UNDER THE NAME OF “GLORY LAND COMPANY LIMITED (國瑞置業有限公司)” IN THE CAYMAN ISLANDS AND CARRYING ON BUSINESS IN HONG KONG AS “GUORUI PROPERTIES LIMITED”)

OPINION

We have audited the consolidated financial statements of Guorui Properties Limited (incorporated under the name of “Glory Land Company Limited (國瑞置業有限公司)” in the Cayman Islands and carrying on business in Hong Kong as “Guorui Properties Limited”) (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 290 to 442, which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (“ISAs”) issued by the International Auditing and Assurance Standards Board. 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 are independent of the Group in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (the “Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 matter**Valuation of investment properties**

We identified the valuation of investment properties as a key audit matter because the valuation process is based on an estimation of future results, a set of assumptions and a determination of key inputs, which are judgmental. Any changes to these inputs may have a significant impact on the fair value. The management determined the fair value of the Group's investment properties at December 31, 2018 with the assistance of an external valuer.

Details of the investment properties and the related key estimation uncertainty are set out in notes 16 and 4 to the consolidated financial statements respectively.

Revenue from property sales

We identified the revenue from property sales as a key audit matter due to the significance of the amount and volume of sales transactions recognized during the year.

Details of revenue from property sales are set out in note 5 to the consolidated financial statements.

How our audit addressed the key audit matter

Our procedures in relation to valuation of investment properties included:

- Evaluating the competence, capabilities and objectivity of the external valuer engaged by the management;
- Obtaining a copy of valuation report prepared by the external valuer and discussing with the external valuer to understand the basis of determination of valuation; and
- Challenging the external valuer the methodologies and judgments used in valuing the investment properties and obtaining the market evidence that the external valuer used to support the key inputs.

Our procedures in relation to revenue from property sales included:

- Testing key internal controls over revenue recognition for property sales on a sample basis; and
- Selecting property sales transactions on a sample basis and:
 - reading the signed sales and purchase agreements to understand the relevant terms of the timing of property delivery and transfer of control;
 - obtaining evidence regarding the property delivery and transfer of control; and
 - reconciling the monetary amounts of recorded transactions and related payments to the signed sales and purchase agreements.

INDEPENDENT AUDITOR'S REPORT

For the year ended December 31, 2018

Key audit matter

How our audit addressed the key audit matter

Valuation of properties under development for sale acquired in business combination

We identified valuation of properties under development for sale acquired in business combination undertaken by the Group in the current year as a key audit matter because the valuation process is based on an estimation of future results, a set of assumptions and a determination of key inputs, which are judgmental. Any changes to these inputs may have a significant impact on the fair value of properties under development for sale as of the date of acquisition. The management determined the fair value of the Group's properties under development for sale, together with other identifiable assets acquired and liabilities incurred, as of the date of acquisition with the assistance of an external valuer.

Details of the businesses combination and key estimation certainty are set out in notes 44 and 4 to the consolidated financial statements respectively.

Our procedures in relation to the valuation of properties under development for sale acquired in business combination included:

- Obtaining and examining the relevant agreements and documents to identify the key transaction terms and conditions, and evaluating management's determination of acquisition dates and appropriateness of accounting treatment to be in accordance with the Group's accounting policies and applicable accounting standards;
- Evaluating the competence, capabilities and objectivity of the external valuer engaged by the management;
- Obtaining a copy of valuation report prepared by the external valuer and discussing with the external valuer to understand the basis of determination of valuation; and
- With the assistance of our internal valuation specialists, evaluating the methodologies and judgments used by the external valuer in valuing the properties under development for sales acquired and obtaining the market evidence that the external valuer used to support the key inputs.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include 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.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE 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 IFRSs and the disclosure requirements of 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.

Those charged with governance are 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 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs 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.

INDEPENDENT AUDITOR'S REPORT

For the year ended December 31, 2018

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism 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.
- 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.

INDEPENDENT AUDITOR'S REPORT

For the year ended December 31, 2018

We communicate with those charged with governance 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 those charged with governance 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 those charged with governance, 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 the independent auditor's report is Chan Alan.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

March 28, 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended December 31, 2018

| | NOTES | Year ended December 31, | |
|--|-------|-------------------------|------------------|
| | | 2018 RMB'000 | 2017 RMB'000 |
| Revenue | 5 | | |
| Property sales | | 5,924,612 | 6,381,746 |
| Construction and development services | | 156,451 | 75,095 |
| Property management and related services | | 21,231 | 20,281 |
| Property rental | | 510,191 | 310,293 |
| Total revenue | | 6,612,485 | 6,787,415 |
| Cost of sales and services | | (4,013,283) | (3,618,543) |
| Gross profit | | 2,599,202 | 3,168,872 |
| Other gains and losses | 7 | 67,364 | 161,185 |
| Other income | 8 | 159,267 | 88,241 |
| Change in fair value of investment properties | | 907,791 | 955,743 |
| Distribution and selling expenses | | (206,799) | (194,915) |
| Administrative expenses | | (507,815) | (360,684) |
| Other expenses | 9 | (53,252) | (45,676) |
| Share of losses of joint ventures | | (11,939) | (936) |
| Share of losses of associates | | (10,905) | (6,014) |
| Finance costs | 10 | (245,446) | (198,683) |
| Profit before tax | 11 | 2,697,468 | 3,567,133 |
| Income tax expense | 13 | (1,128,237) | (1,527,622) |
| Profit for the year | | 1,569,231 | 2,039,511 |
| Other comprehensive (expense) income | | | |
| <i>Items that will not be reclassified to profit or loss:</i> | | | |
| Fair value loss on equity instruments at fair value through other comprehensive income | | (9,593) | — |
| Gain on revaluation of properties | | — | 324,949 |
| Income tax relating to items that will not be reclassified to profit or loss | | 2,398 | (81,237) |
| | | (7,195) | 243,712 |
| Total comprehensive income for the year | | 1,562,036 | 2,283,223 |

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended December 31, 2018

| | | Year ended December 31, | |
|--|------------------|--------------------------------|----|
| NOTE | 2018 | 2017 | |
| | RMB'000 | RMB'000 | |
| Profit for the year attributable to: | | | |
| Owners of the Company | 1,008,784 | 1,749,841 | |
| Non-controlling interests | 560,447 | 289,670 | |
| | 1,569,231 | 2,039,511 | |
| Total comprehensive income for the year attributable to: | | | |
| Owners of the Company | 1,002,237 | 1,944,811 | |
| Non-controlling interests | 559,799 | 338,412 | |
| | 1,562,036 | 2,283,223 | |
| Earnings per share | | | |
| – Basic (RMB cents) | 22.70 | 39.46 | 14 |
| – Diluted (RMB cents) | 22.60 | 39.20 | |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At December 31, 2018

| | NOTES | At December 31, | |
|---|-------|-------------------|-------------------|
| | | 2018 RMB'000 | 2017 RMB'000 |
| Non-current Assets | | | |
| Investment properties | 16 | 19,545,072 | 18,308,269 |
| Property, plant and equipment | 17 | 1,687,653 | 850,258 |
| Other non-current assets | 18 | 1,409,257 | 1,053,778 |
| Interests in joint ventures | 19 | 24,375 | 9,064 |
| Interests in associates | 20 | 565 | 269,246 |
| Equity instruments at fair value through other comprehensive income | 21 | 220,307 | — |
| Available-for-sale investments | 22 | — | 165,192 |
| Prepaid lease payments | 23 | 275,466 | 281,438 |
| Deposits paid for acquisition of property, plant and equipment | | — | 120,000 |
| Deferred tax assets | 24 | 510,513 | 404,235 |
| Restricted bank deposits | 33 | 462,980 | 105,720 |
| Value added tax and tax recoverable | | 1,680,675 | 1,422,585 |
| | | 25,816,863 | 22,989,785 |
| Current Assets | | | |
| Inventories | | 67 | 61 |
| Deposits paid for acquisition of land | 25 | 830,301 | 605,010 |
| Properties under development for sale | 26 | 36,371,398 | 23,626,222 |
| Properties held for sale | 28 | 4,372,328 | 3,408,156 |
| Trade and other receivables, deposits and prepayments | 29 | 2,296,480 | 1,082,946 |
| Contract assets | 30 | 1,223,570 | — |
| Contract costs | 31 | 36,321 | — |
| Amounts due from customers for contract work | 32 | — | 1,191,139 |
| Value added tax and tax recoverable | | 634,706 | 500,477 |
| Amounts due from related parties | 52 | 2,588,873 | 2,928,197 |
| Financial assets at fair value through profit or loss | | — | 97 |
| Restricted bank deposits | 33 | 479,151 | 620,761 |
| Bank balances and cash | 34 | 1,030,143 | 1,591,506 |
| | | 49,863,338 | 35,554,572 |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At December 31, 2018

| | | At December 31, | |
|---|-------|------------------------|-------------------|
| | NOTES | 2018 | 2017 |
| | | RMB'000 | RMB'000 |
| Current Liabilities | | | |
| Trade and other payables | 35 | 6,757,015 | 5,585,713 |
| Deposits received from pre-sale of properties | | — | 3,308,339 |
| Contract liabilities | 36 | 11,208,252 | — |
| Amounts due to related parties | 52 | 4,265,166 | 893,229 |
| Tax payable | 37 | 2,874,075 | 2,492,186 |
| Bank and trust borrowings - due within one year | 38 | 9,037,963 | 11,625,399 |
| Corporate bonds | 39 | 998,765 | 2,992,645 |
| Senior notes | 40 | 3,768,364 | — |
| | | 38,909,600 | 26,897,511 |
| Net Current Assets | | 10,953,738 | 8,657,061 |
| Total Assets less Current Liabilities | | 36,770,601 | 31,646,846 |
| Non-current Liabilities | | | |
| Rental deposits received | 35 | 106,312 | 89,393 |
| Bank and trust borrowings - due after one year | 38 | 14,261,021 | 12,601,665 |
| Corporate bonds | 39 | 54,670 | 997,006 |
| Senior notes | 40 | 677,419 | 1,940,948 |
| Deferred tax liabilities | 24 | 3,840,352 | 2,425,425 |
| | | 18,939,774 | 18,054,437 |
| Net Assets | | 17,830,827 | 13,592,409 |
| Capital and Reserves | | | |
| Share capital | 41 | 3,520 | 3,519 |
| Share premium and reserves | | 11,899,088 | 10,898,692 |
| Equity attributable to owners of the Company | | 11,902,608 | 10,902,211 |
| Non-controlling interests | | 5,928,219 | 2,690,198 |
| Total Equity | | 17,830,827 | 13,592,409 |

The consolidated financial statements on pages 290 to 442 were approved and authorized for issue by the Board of Directors on March 28, 2019 and are signed on its behalf by:

Ge Weiguang
DIRECTOR

Ruan Wenjuan
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2018

| | Attributable to owners of the Company | | | | | | | | | | | | Total RMB'000 |
|--|---------------------------------------|--------------------------|----------------------------|--------------------------------|---------------------------|--|---|----------------------------|---|------------------------------|----------------------|--------------------------------------|------------------|
| | Share capital RMB'000 | Share premium RMB'000 | Capital reserve RMB'000 | Revaluation reserve RMB'000 | FVTOCI reserve RMB'000 | Other reserve RMB'000 (Note (i)) | Equity-settled share-based payment reserve RMB'000 | Treasury shares RMB'000 | Statutory surplus reserve RMB'000 (Note (ii)) | Retained earnings RMB'000 | Sub-total RMB'000 | Non-controlling interests RMB'000 | |
| At January 1, 2017 | 3,513 | 833,681 | 133,379 | — | — | (58,601) | 57,785 | (18,748) | 855,993 | 7,676,855 | 9,483,857 | 2,326,993 | 11,810,850 |
| Profit for the year | — | — | — | — | — | — | — | — | — | 1,749,841 | 1,749,841 | 289,670 | 2,039,511 |
| Other comprehensive income for the year | — | — | — | 194,970 | — | — | — | — | — | — | 194,970 | 48,742 | 243,712 |
| Total comprehensive income for the year | — | — | — | 194,970 | — | — | — | — | — | 1,749,841 | 1,944,811 | 338,412 | 2,283,223 |
| Transfer of reserves | — | — | — | — | — | — | — | — | 231,548 | (231,548) | — | — | — |
| Dividend declared to owners of the Company (note 15) | — | (540,000) | — | — | — | — | — | — | — | — | (540,000) | — | (540,000) |
| Dividend declared to non-controlling interests | — | — | — | — | — | — | — | — | — | — | — | (236,000) | (236,000) |
| Recognition of equity-settled share-based payments (note 43) | — | — | — | — | — | — | 5,206 | — | — | — | 5,206 | — | 5,206 |
| Exercise of share options (note 43) | 6 | 12,334 | — | — | — | — | (4,574) | — | — | — | 7,766 | — | 7,766 |
| Shares vested under share award scheme (note 43) | — | — | — | — | — | — | (18,748) | 18,748 | — | — | — | — | — |
| Acquisitions of subsidiaries (note 44) | — | — | — | — | — | — | — | — | — | — | — | 73,646 | 73,646 |
| Disposal of partial interest in a subsidiary (Note (iii)) | — | — | — | — | — | 571 | — | — | — | — | 571 | 187,147 | 187,718 |
| At December 31, 2017 | 3,519 | 306,015 | 133,379 | 194,970 | — | (58,030) | 39,669 | — | 1,087,541 | 9,195,148 | 10,902,211 | 2,680,198 | 13,592,409 |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2018

| | Attributable to owners of the Company | | | | | | | | | | | | Total RMB'000 |
|---|---------------------------------------|--------------------------|----------------------------|--------------------------------|---------------------------|--------------------------------------|---|------------------------------------|---|------------------------------|----------------------|--------------------------------------|------------------|
| | Share capital RMB'000 | Share premium RMB'000 | Capital reserve RMB'000 | Revaluation reserve RMB'000 | FVTOCI reserve RMB'000 | Other reserve RMB'000 (Note i) | Equity-settled share-based payment reserve RMB'000 | Treasury shares reserve RMB'000 | Statutory surplus reserve RMB'000 (Note ii) | Retained earnings RMB'000 | Sub-total RMB'000 | Non-controlling interests RMB'000 | |
| Adjustments (See note 2) | — | — | — | — | 44,163 | — | — | — | — | — | 44,163 | 4,368 | 48,531 |
| At January 1, 2018 (Restated) | 3,519 | 306,015 | 133,379 | 194,970 | 44,163 | (58,030) | 39,669 | — | 1,087,541 | 9,195,148 | 10,946,374 | 2,694,566 | 13,640,940 |
| Profit for the year | — | — | — | — | — | — | — | — | — | 1,008,784 | 1,008,784 | 560,447 | 1,569,231 |
| Other comprehensive expense for the year | — | — | — | — | (6,547) | — | — | — | — | — | (6,547) | (648) | (7,195) |
| Total comprehensive (expense) income for the year | — | — | — | — | (6,547) | — | — | — | — | 1,008,784 | 1,002,237 | 559,799 | 1,562,036 |
| Transfer of reserves | — | — | — | — | — | — | — | — | 131,833 | (131,833) | — | — | — |
| Dividend declared to owners of the Company (note 15) | — | (300,000) | — | — | — | — | — | — | — | — | (300,000) | — | (300,000) |
| Dividend declared to non-controlling interests | — | — | — | — | — | — | — | — | — | — | — | (270,000) | (270,000) |
| Exercise of share options (note 43) | 1 | 2,012 | — | — | — | — | (771) | — | — | — | 1,242 | — | 1,242 |
| Acquisitions of subsidiaries (note 44) | — | — | — | — | — | 187,460 | — | — | — | — | 187,460 | 3,025,149 | 3,212,609 |
| Acquisition of partial interest in a subsidiary (Note (iv)) | — | — | — | — | — | 64,810 | — | — | — | — | 64,810 | (84,810) | (20,000) |
| Disposal of partial interest in a subsidiary (Note (v)) | — | — | — | — | — | 485 | — | — | — | — | 485 | 3,515 | 4,000 |
| At December 31, 2018 | 3,520 | 8,027 | 133,379 | 194,970 | 37,616 | 194,725 | 38,898 | — | 1,219,374 | 10,072,099 | 11,902,608 | 5,928,219 | 17,830,827 |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2018

Notes:

- (i) Other reserve mainly represents (a) the differences between the amount by which non-controlling interests are adjusted and the fair value of consideration paid or received by the Group (as defined in note 1) in acquiring or disposal of partial interests in existing subsidiaries and capital contribution from non-controlling equity holders of subsidiaries; and (b) deemed contribution from a related party of RMB187,460,000 arising from acquisition of businesses in the current year with details set out in note 44.
- (ii) In accordance with the Articles of Association of all subsidiaries established in the People's Republic of China (the "PRC"), those subsidiaries are required to transfer 10% of the profit after taxation to the statutory surplus reserve until the reserve reaches 50% of the registered capital. Transfer to this reserve must be made before distributing dividends to equity holders. The statutory surplus reserve can be used to make up for previous years' losses, expand the existing operations or convert into additional capital of the subsidiaries.
- (iii) During the year ended December 31, 2017, the Group disposed 10% equity interest in Qidong Yujiangwan Investment Management Co., Ltd. 啟東禦江灣投資管理有限公司 ("Qidong Yujiangwan") at a consideration of RMB187,718,000. The difference between the consideration received and the carrying amount of the partial equity interest disposed amounted to RMB571,000 was recognized in other reserve.
- (iv) During the year, Shenzhen Glory Real Estate Co., Ltd. 深圳國瑞興業房地產有限公司 ("Shenzhen Glory Xingye") has entered into an agreement with a third party to acquire 10% equity interest in Dachaoshan Real Estate Development Ltd. 深圳市大潮汕建設有限公司 ("Shenzhen Dachaoshan"), an existing subsidiary of the Group, at a consideration of RMB20,000,000, of which RMB8,000,000 was paid during the current year. The difference between the consideration and the carrying amount of the partial equity interest acquired amounted to RMB64,810,000 was recognized in other reserve.
- (v) During the year, Shantou Garden Group Co., Ltd. 汕頭花園集團有限公司 ("Garden Group") disposed 20% equity interest in Shenzhen Glory Xingye Culture Development Ltd. 深圳國瑞興業文化發展有限公司 ("Shenzhen Glory Xingye Culture") to Longhu Huamu Market Co., Ltd. 汕頭市龍湖花木市場有限公司 ("Longhu Huamu") which is controlled by Ms. Zhang Youxi, sister of Mr. Zhang Zhongsun, at a consideration of RMB4,000,000, which has not yet been received up to December 31, 2018. The difference between consideration and the carrying amount of the partial equity interest disposed amounted to RMB485,000 was recognized in other reserve.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2018

| | Year ended December 31, | |
|---|--------------------------------|--------------------|
| | 2018 | 2017 |
| | RMB'000 | RMB'000 |
| OPERATING ACTIVITIES | | |
| Profit before tax | 2,697,468 | 3,567,133 |
| Adjustments for: | | |
| Amortization of intangible assets | 1,985 | 1,492 |
| Amortization of prepaid lease payments | 6,035 | 6,035 |
| Changes in fair value of investment properties | (907,791) | (955,743) |
| Depreciation of property, plant and equipment | 72,280 | 31,715 |
| Finance costs | 245,446 | 198,683 |
| Foreign exchange losses (gains) | 54,320 | (161,278) |
| Gain from changes in fair value of financial assets at fair value through profit or loss | (14) | — |
| Gain from remeasurement of retained equity interest | (121,250) | — |
| Gain on disposal of a subsidiary | (405) | — |
| (Gain) loss on disposal of property, plant and equipment | (15) | 93 |
| Interest income | (145,627) | (79,965) |
| Share-based payment expense | — | 4,171 |
| Share of losses of associates | 10,905 | 6,014 |
| Share of losses of joint ventures | 11,939 | 936 |
| Operating cash flows before movements in working capital | 1,925,276 | 2,619,286 |
| Increase in other non-current assets, properties under development for sale and properties held for sale | (1,415,980) | (5,326,204) |
| Increase in deposits paid for acquisition of land | (225,291) | (240,000) |
| (Increase) decrease in inventories | (6) | 44 |
| Increase in trade and other receivables, deposits and prepayments | (500,990) | (259,558) |
| Decrease in contract assets | 144,910 | — |
| Increase in contract costs | (36,321) | — |
| Increase in amounts due from related parties | — | (21,277) |
| Increase in amounts due to related parties | 4,688 | 8,833 |
| (Decrease) increase in trade and other payables | (1,492,891) | 194,658 |
| Increase in contract liabilities | 3,401,839 | — |
| Increase in deposits received from pre-sale of properties | — | 627,914 |
| Decrease in amounts due from customers for contract work | — | 221,463 |
| Increase in restricted bank deposits | (423,030) | (198,753) |
| Cash from (used in) operations | 1,382,204 | (2,373,594) |
| Income tax and land appreciation tax paid | (639,940) | (866,780) |
| NET CASH FROM (USED IN) OPERATING ACTIVITIES | 742,264 | (3,240,374) |

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2018

| | NOTES | Year ended December 31, | |
|--|-------|-------------------------|--------------------|
| | | 2018 RMB'000 | 2017 RMB'000 |
| INVESTING ACTIVITIES | | | |
| Interest received | | 14,088 | 6,822 |
| Purchase of property, plant and equipment and intangible assets | | (436,703) | (476,630) |
| Proceeds on disposal of property, plant and equipment | | 371 | 191 |
| Payments for investment properties | | (164,012) | (633,501) |
| Net cash inflow arising on acquisitions of subsidiaries | 44 | 730,169 | 15 |
| Payment of consideration payable for acquisition of subsidiaries in prior year | | (7,000) | (599,150) |
| Net cash outflow on disposal of a subsidiary | 45 | (131) | — |
| Investments in joint ventures | | (25,500) | (10,000) |
| Purchase of entrusted financial products | | (287,038) | — |
| Disposal of entrusted financial products | | 287,038 | — |
| Interest received from entrusted financial products | | 8,664 | — |
| Proceeds on disposal of financial assets at fair value through profit or loss | | 111 | — |
| Advances to related parties | | (2,801,978) | (3,668,757) |
| Repayments from related parties | | 4,979,061 | 839,980 |
| Withdrawal of restricted bank deposits | | 277,284 | 66,234 |
| Placement of restricted bank deposits | | (69,904) | (307,296) |
| NET CASH FROM (USED IN) INVESTING ACTIVITIES | | 2,504,520 | (4,782,092) |

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2018

| | Year ended December 31, | |
|--|-------------------------|------------------|
| | 2018 RMB'000 | 2017 RMB'000 |
| FINANCING ACTIVITIES | | |
| New bank borrowings raised | 6,510,000 | 8,153,986 |
| New trust borrowings raised | 7,027,942 | 4,760,000 |
| Repayments of bank borrowings | (13,027,922) | (4,244,789) |
| Repayments of trust borrowings | (2,407,000) | (350,000) |
| Advances from related parties | 3,756,730 | 8 |
| Repayments to related parties | (2,557,945) | (3,065) |
| Repayment of corporate bonds | (2,945,330) | — |
| Proceeds on issue of senior notes | 2,222,540 | 2,072,130 |
| Transaction costs paid for issuance of senior notes | (36,839) | (31,082) |
| Interest paid | (2,175,254) | (1,655,266) |
| Payments for acquisition of partial interest in a subsidiary | (8,000) | — |
| Exercise of share options | 1,242 | 7,766 |
| Dividends paid to owners of the Company | (95,811) | (108,966) |
| Dividends paid to non-controlling interests | (72,500) | (221,000) |
| NET CASH (USED IN) FROM FINANCING ACTIVITIES | (3,808,147) | 8,379,722 |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (561,363) | 357,256 |
| CASH AND CASH EQUIVALENTS AT JANUARY 1, 2018 | 1,591,506 | 1,234,250 |
| CASH AND CASH EQUIVALENTS AT DECEMBER 31, 2018, REPRESENTED BY BANK BALANCES AND CASH | 1,030,143 | 1,591,506 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

1. GENERAL

Guorui Properties Limited (the “Company”) was incorporated in the Cayman Islands under the name of “Glory Land Company Limited (國瑞置業有限公司)” as an exempted company with limited liability under the Company Laws (2012 Revision) of the Cayman Islands on July 16, 2012 which carries on business in Hong Kong as “Guorui Properties Limited”. Its parent and ultimate holding company is Alltogether Land Company Limited (通和置業有限公司) (“Alltogether Land”), a company incorporated in the British Virgin Islands. Mr. Zhang Zhangsun, who hold 100% equity interests of Alltogether Land, is the ultimate beneficial owner of the Company. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and its principal place of business is located at East Block, Hademen Plaza, 8-1#Chongwenmenwai Street, Dongcheng District, Beijing, the PRC.

The Company’s shares were listed on the mainboard of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company and its subsidiaries (collectively the “Group”) are principally engaged in the business of property development, provision of primary land construction and development services, property investment, and provision of property management and related services.

The consolidated financial statements are presented in Renminbi (“RMB”), which is also the functional currency of the Company.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”)

New and amendment to IFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to IFRSs issued by the International Accounting Standards Board (the “IASB”) for the first time in the current year.

| | |
|----------------------|---|
| IFRS 9 | Financial Instruments |
| IFRS 15 | Revenue from Contracts with Customers and the related Amendments |
| IFRIC 22 | Foreign Currency Transactions and Advance Consideration |
| Amendments to IFRS 2 | Classification and Measurement of Share-based Payment Transactions |
| Amendments to IFRS 4 | Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts |
| Amendments to IAS 28 | As part of the Annual Improvements to IFRS Standards 2014-2016 Cycle |
| Amendments to IAS 40 | Transfers of Investment Property |

Except as described below, the application of the new and amendments to IFRSs in the current year has had no material impact on the Group’s financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (continued)

New and amendment to IFRSs that are mandatorily effective for the current year (continued)

2.1 IFRS 15 *Revenue from Contracts with Customers*

The Group has applied IFRS 15 for the first time in the current year. IFRS 15 superseded IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations.

The Group has applied IFRS 15 retrospectively with the cumulative effect of initially applying this standard recognized at the date of initial application, January 1, 2018. Any difference at the date of initial application is recognized in the opening retained earnings and comparative information has not been restated. Furthermore, in accordance with the transition provisions in IFRS 15, the Group has elected to apply the IFRS 15 retrospectively only to contracts that are not completed at January 1, 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18, IAS 11 and the related interpretations.

The Group recognizes revenue from the following major sources which arise from contracts with customers:

- Property sales;
- Construction and development services; and
- Property management and related services.

Information about the Group’s performance obligations and the accounting policies resulting from application of IFRS 15 are disclosed in notes 5 and 3 respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (continued)

New and amendment to IFRSs that are mandatorily effective for the current year (continued)

2.1 IFRS 15 Revenue from Contracts with Customers (continued)

Summary of effects arising from initial application of IFRS 15

The transition to IFRS 15 has no material impact on the retained earnings at January 1, 2018.

The following adjustments were made to the amounts recognized in the consolidated statement of financial position at January 1, 2018. Line items that were not affected by the changes have not been included.

| | NOTES | Carrying amounts previously reported as at December 31, 2017 RMB'000 | Reclassification RMB'000 | Remeasurement RMB'000 | Carrying amounts under IFRS 15 as at January 1, 2018* RMB'000 |
|---|----------|---|-----------------------------|--------------------------|--|
| Current Assets | | | | | |
| Properties under development for sale | (a) | 23,626,222 | — | 72,032 | 23,698,254 |
| Trade and other receivables, deposits and prepayments | (b) | 1,082,946 | (63,535) | — | 1,019,411 |
| Amounts due from customers for contract work | (c) | 1,191,139 | (1,191,139) | — | — |
| Contract assets | (b)& (c) | — | 1,254,674 | — | 1,254,674 |
| Current Liabilities | | | | | |
| Deposits received from pre-sale of properties | (a) | 3,308,339 | (3,308,339) | — | — |
| Contract liabilities | (a) | — | 3,308,339 | 72,032 | 3,380,371 |

* The amounts in this column are before the adjustments from the application of IFRS 9.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (continued)

New and amendment to IFRSs that are mandatorily effective for the current year (continued)

2.1 IFRS 15 Revenue from Contracts with Customers (continued)

Summary of effects arising from initial application of IFRS 15 (continued)

Notes:

- (a) As at January 1, 2018, advances from customers of RMB3,308,339,000 in respect of property sales previously included in deposits received from pre-sale of properties were reclassified to contract liabilities.

The interest on the advances from customers accumulated up to January 1, 2018 of RMB72,032,000 in respect of certain property sales contracts containing significant financing component where the period between payment and transfer of the associated properties exceed one year, were accrued under contract liabilities, with the corresponding charge capitalized under properties under development for sale.

- (b) At the date of initial application, unbilled revenue of RMB63,535,000 arising from certain property sales contracts are conditional on the satisfaction of specified conditions as stipulated in the contracts, and hence such balance was reclassified from trade receivables to contract assets.

- (c) In relation to construction contracts previously accounted under IAS 11, the Group continues to apply input method in measurement of progress towards complete satisfaction of a performance obligation upon initial application of IFRS 15. RMB1,191,139,000 of amounts due from customers for contract work were reclassified to contract assets.

The following tables summarize the impacts of applying IFRS 15 on the Group’s consolidated statement of financial position as at December 31, 2018, and its consolidated statement of profit or loss and other comprehensive income and consolidated statement of cash flows for the current year for each of the line items affected. Line items that were not affected by the changes have not been included.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (continued)

New and amendment to IFRSs that are mandatorily effective for the current year (continued)

2.1 IFRS 15 Revenue from Contracts with Customers (continued)

Summary of effects arising from initial application of IFRS 15 (continued)

Impact on the consolidated statement of financial position

| | As reported RMB'000 | Adjustments RMB'000 | Amounts without application of IFRS 15 RMB'000 |
|--|------------------------|------------------------|--|
| Current Assets | | | |
| Properties under development for sale | 36,371,398 | (402,533) | 35,968,865 |
| Trade and other receivables, deposits and prepayments | 2,296,480 | 47,205 | 2,343,685 |
| Amounts due from customers for contract work | — | 1,176,365 | 1,176,365 |
| Contract assets | 1,223,570 | (1,223,570) | — |
| Contract costs | 36,321 | (36,321) | — |
| Current Liabilities | | | |
| Deposits received from pre-sale of properties | — | 10,805,719 | 10,805,719 |
| Contract liabilities | 11,208,252 | (11,208,252) | — |
| Non-current Liabilities | | | |
| Deferred tax liabilities | 3,840,352 | (9,080) | 3,831,272 |
| Capital and Reserves | | | |
| Retained earnings | 10,072,099 | (27,241) | 10,044,858 |

Impact on the consolidated statement of profit or loss and other comprehensive income

| | As reported RMB'000 | Adjustments RMB'000 | Amounts without application of IFRS 15 RMB'000 |
|-----------------------------------|------------------------|------------------------|--|
| Revenue | 6,612,485 | (70,947) | 6,541,538 |
| Cost of sales and services | (4,013,283) | 70,947 | (3,942,336) |
| Distribution and selling expenses | (206,799) | (36,321) | (243,120) |
| Profit before tax | 2,697,468 | (36,321) | 2,661,147 |
| Income tax expense | (1,128,237) | 9,080 | (1,119,157) |

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (continued)

New and amendment to IFRSs that are mandatorily effective for the current year (continued)

2.1 IFRS 15 Revenue from Contracts with Customers (continued)

Summary of effects arising from initial application of IFRS 15 (continued)

Impact on the consolidated statement of cash flows

| | As reported RMB'000 | Adjustments RMB'000 | Amounts without application of IFRS 15 RMB'000 |
|---|------------------------|------------------------|--|
| OPERATING ACTIVITIES | | | |
| Profit before tax | 2,697,468 | (36,321) | 2,661,147 |
| Increase in properties under development for sale and properties held for sale | (1,343,899) | — | (1,343,899) |
| Increase in trade and other receivables, deposits and prepayments | (500,990) | 16,330 | (484,660) |
| Decrease in contract assets | 144,910 | (144,910) | — |
| Increase in contract costs | (36,321) | 36,321 | — |
| Decrease in amounts due from customers for contract work | — | 128,580 | 128,580 |
| Increase in contract liabilities | 3,329,758 | (3,329,758) | — |
| Increase in deposits received from pre-sale of properties | — | 3,329,758 | 3,329,758 |

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (continued)

New and amendment to IFRSs that are mandatorily effective for the current year (continued)

2.2 IFRS 9 *Financial Instruments*

In the current year, the Group has applied IFRS 9 *Financial Instruments* and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses (“ECL”) for financial assets and other items (for example, lease receivables, contract assets and financial guarantee contracts) and 3) general hedge accounting.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognized as at January 1, 2018, (date of initial application) and has not applied the requirements to instruments that have already been derecognized as at January 1, 2018. The difference between carrying amounts as at December 31, 2017 and the carrying amounts as at January 1, 2018, are recognized in the opening retained earnings and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 39 *Financial Instruments: Recognition and Measurement*.

Accounting policies resulting from application of IFRS 9 are disclosed in note 3.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (continued)

New and amendment to IFRSs that are mandatorily effective for the current year (continued)

2.2 IFRS 9 *Financial Instruments* (continued)

Summary of effects arising from initial application of IFRS 9

The table below illustrates the classification and measurement of financial assets and other items subject to ECL under IFRS 9 and IAS 39 and the corresponding impact on deferred tax liabilities at the date of initial application, January 1, 2018.

| NOTE | Available -for-sale investments RMB'000 | Equity instruments at FVTOCI RMB'000 | Trade receivables RMB'000 | Contract assets RMB'000 | Amounts due from customers for contract work RMB'000 | Deferred tax liabilities RMB'000 | FVTOCI reserve RMB'000 | Non- controlling interests RMB'000 |
|---|--|---|---------------------------------|-------------------------------|--|---|------------------------------|---|
| Closing balance as at December 31, 2017 | 165,192 | — | 480,394 | — | 1,191,139 | 2,425,425 | — | 2,690,198 |
| Effect arising from initial application of IFRS 15 | — | — | (63,535) | 1,254,674 | (1,191,139) | — | — | — |
| Effect arising from initial application of IFRS 9: | | | | | | | | |
| Reclassification | | | | | | | | |
| From available-for-sale (a) | (165,192) | 165,192 | — | — | — | — | — | — |
| Remeasurement | | | | | | | | |
| From cost less impairment to fair value (a) | — | 64,708 | — | — | — | 16,177 | 44,163 | 4,368 |
| Opening balance as at January 1, 2018 | — | 229,900 | 416,859 | 1,254,674 | — | 2,441,602 | 44,163 | 2,694,566 |

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (continued)

New and amendment to IFRSs that are mandatorily effective for the current year (continued)

2.2 IFRS 9 *Financial Instruments* (continued)

Summary of effects arising from initial application of IFRS 9 (continued)

Notes:

- (a) Available-for-sale (“AFS”) investments

From AFS equity investments to fair value through other comprehensive income (“FVTOCI”)

The Group elected to present in other comprehensive income (“OCI”) for the fair value changes of all its unquoted equity investments previously classified as available-for-sale measured at cost less impairment under IAS 39. These investments are not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of IFRS 9, the investments were reclassified from AFS investments to equity instruments at FVTOCI and the corresponding increase in fair value of RMB64,708,000 were adjusted to equity instruments at FVTOCI and FVTOCI reserve, and the related deferred tax liability of RMB16,177,000 were adjusted to FVTOCI reserve as at January 1, 2018.

- (b) Impairment under ECL model

As at January 1, 2018, no material credit loss allowance has been recognized against retained earnings upon application of ECL model.

2.3 Amendments to IAS 40 *Transfers of Investment Property*

The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by evidence that a change in use has occurred. The amendments further clarify that situations other than the ones listed in IAS 40 may evidence a change in use, and that a change in use is possible for properties under construction (i.e. a change in use is not limited to completed properties).

At the date of initial application, the Group assessed the classification of certain properties based on conditions existing at that date. There is no material impact to the classification at January 1, 2018.

2.4 Impacts on opening consolidated statement of financial position arising from the application of all new standards

As a result of the changes in the Group’s accounting policies above, the opening consolidated statement of financial position had to be restated. The following table show the adjustments recognized for each of the line items affected. Line items that were not affected by the changes have not been included.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (continued)

New and amendment to IFRSs that are mandatorily effective for the current year (continued)

2.4 Impacts on opening consolidated statement of financial position arising from the application of all new standards (continued)

| | As at December 31, 2017 RMB'000 | IFRS 15 RMB'000 | IFRS 9 RMB'000 | As at January 1, 2018 RMB'000 (Restated) |
|---|--|--------------------|-------------------|--|
| Non-current Assets | | | | |
| AFS investments | 165,192 | — | (165,192) | — |
| Equity instruments at FVTOCI | — | — | 229,900 | 229,900 |
| Others with no adjustments | 22,824,593 | — | — | 22,824,593 |
| | 22,989,785 | — | 64,708 | 23,054,493 |
| Current Assets | | | | |
| Properties under development for sale | 23,626,222 | 72,032 | — | 23,698,254 |
| Trade and other receivables, deposits and prepayments | 1,082,946 | (63,535) | — | 1,019,411 |
| Contract assets | — | 1,254,674 | — | 1,254,674 |
| Amounts due from customers for contract work | 1,191,139 | (1,191,139) | — | — |
| Others with no adjustments | 9,654,265 | — | — | 9,654,265 |
| | 35,554,572 | 72,032 | — | 35,626,604 |
| Current Liabilities | | | | |
| Deposits received from pre-sale of properties | 3,308,339 | (3,308,339) | — | — |
| Contract liabilities | — | 3,380,371 | — | 3,380,371 |
| Others with no adjustments | 23,589,172 | — | — | 23,589,172 |
| | 26,897,511 | 72,032 | — | 26,969,543 |
| Net Current Assets | 8,657,061 | — | — | 8,657,061 |
| Total Assets less Current Liabilities | 31,646,846 | — | 64,708 | 31,711,554 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (continued)

New and amendment to IFRSs that are mandatorily effective for the current year (continued)

2.4 Impacts on opening consolidated statement of financial position arising from the application of all new standards (continued)

| | As at December 31, 2017 RMB'000 | IFRS 15 RMB'000 | IFRS 9 RMB'000 | As at January 1, 2018 RMB'000 (Restated) |
|---|--|--------------------|-------------------|--|
| Non-current Liabilities | | | | |
| Deferred tax liabilities | 2,425,425 | — | 16,177 | 2,441,602 |
| Others with no adjustments | 15,629,012 | — | — | 15,629,012 |
| | 18,054,437 | — | 16,177 | 18,070,614 |
| Net Assets | 13,592,409 | — | 48,531 | 13,640,940 |
| Capital and Reserves | | | | |
| Share capital | 3,519 | — | — | 3,519 |
| Reserves | 10,898,692 | — | 44,163 | 10,942,855 |
| Equity attributable to owners of the Company | 10,902,211 | — | 44,163 | 10,946,374 |
| Non-controlling interests | 2,690,198 | — | 4,368 | 2,694,566 |
| Total Equity | 13,592,409 | — | 48,531 | 13,640,940 |

Note: For the purposes of reporting cash flows from operating activities under indirect method for the year ended December 31, 2018, movements in working capital have been computed based on opening consolidated statement of financial position as at January 1, 2018 as disclosed above.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (continued)

New and amendments to IFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to IFRSs and an interpretation that have been issued but are not yet effective:

| | |
|----------------------------------|--|
| IFRS 16 | Leases ¹ |
| IFRS 17 | Insurance Contracts ² |
| IFRIC 23 | Uncertainty over Income Tax Treatments ¹ |
| Amendments to IFRS 3 | Definition of a Business ³ |
| Amendments to IFRS 9 | Prepayment Features with Negative Compensation ¹ |
| Amendments to IFRS 10 and IAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴ |
| Amendments to IAS 1 and IAS 8 | Definition of Material ⁵ |
| Amendments to IAS 19 | Plan Amendment, Curtailment or Settlement ¹ |
| Amendments to IAS 28 | Long-term Interests in Associates and Joint Ventures ¹ |
| Amendments to IFRSs | Annual Improvements to IFRS Standards 2015-2017 Cycle ¹ |

¹ Effective for annual periods beginning on or after January 1, 2019

² Effective for annual periods beginning on or after January 1, 2021

³ Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after January 1, 2020

⁴ Effective for annual periods beginning on or after a date to be determined

⁵ Effective for annual periods beginning on or after January 1, 2020

Except for the new and amendments to IFRS mentioned below, the directors of the Company (the “Directors”) anticipate that the application of all other new and amendments to IFRSs and the interpretation will have no material impact on the consolidated financial statements in the foreseeable future.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (continued)

New and amendments to IFRSs in issue but not yet effective (continued)

IFRS 16 *Leases*

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede IAS 17 *Leases* and the related interpretations when it becomes effective.

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, IFRS 16 requires sales and leaseback transactions to be determined based on the requirements of IFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. IFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognized for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest expense and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Upon application of IFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be both presented as financing cash flows by the Group, and upfront prepaid lease payments will continue to be presented as investing or operating cash flows in accordance to the nature, as appropriate.

Under IAS 17, the Group has already recognized prepaid lease payments for leasehold lands where the Group is a lessee. The application of IFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

Other than certain requirements which are also applicable to lessor, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (continued)

New and amendments to IFRSs in issue but not yet effective (continued)

IFRS 16 *Leases* (continued)

Furthermore, extensive disclosures are required by IFRS 16.

As at December 31, 2018, the Group had non-cancellable operating lease commitments of RMB2,832,000 as disclosed in note 51. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of IFRS 16, the Group will recognize a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits received of RMB142,321,000 as at December 31, 2018 as rights and obligations under leases to which IAS 17 applies. Based on the definition of lease payments under IFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortized cost. Adjustments to refundable rental deposits received would be considered as advance lease payments.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of IFRS 16 as lessee and will recognize the cumulative effect of initial application to opening retained earnings without restating comparative information.

Amendments to IAS 1 and IAS 8 *Definition of Material*

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgements. The amendments also align the definition across all IFRSs and will be mandatorily effective for the Group’s annual period beginning on January 1, 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRSs. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for the investment properties and certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based Payment*, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

For financial instruments and investment properties which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that at initial recognition the results of the valuation technique equals the transaction price.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognized. A gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognized in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9/IAS 39 or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations

Acquisitions of businesses, other than business combination under common control are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value, except that deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits* respectively.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net amount of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets or at fair value. The choice of measurement basis is made on a transaction-by-transaction basis.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognized in profit or loss or other comprehensive income, as appropriate. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income and measured under IFRS 9/IAS 39 would be accounted for on the same basis as would be required if the Group had disposed directly of the previously held equity interest.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Acquisition of a subsidiary not constitute a business

When the Group acquires a group of assets and liabilities that does not constitute a business, the Group identifies and recognizes the individual identifiable assets acquired and liabilities assumed by allocating purchase price first to financial assets/financial liabilities at the respective fair values, the remaining balance of the purchase price is then allocated to other identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates and joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, and investment in an associate or a joint venture is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. Changes in net assets of the associate/joint venture other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate or joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates and joint ventures (continued)

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognized immediately in profit or loss in the period in which the investment is acquired.

The Group assesses whether there is an objective evidence that the interest in an associate or a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognized in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

Interests in joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with IFRSs applicable to the particular assets, liabilities, revenues and expenses.

When a group entity transacts with a joint operation in which a group entity is a joint operator (such as a sale or contribution of assets), the Group is considered to be conducting the transaction with the other parties to the joint operation, and gains and losses resulting from the transactions are recognized in the Group's consolidated financial statements only to the extent of other parties' interests in the joint operation.

When a group entity transacts with a joint operation in which a group entity is a joint operator (such as a purchase of assets), the Group does not recognize its share of the gains and losses until it resells those assets to a third party.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue from contracts with customers (upon application of IFRS 15 in accordance with transitions in note 2)

Under IFRS 15, the Group recognizes revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognized over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group’s performance as the Group performs;
- the Group’s performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group’s performance does 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.

Otherwise, revenue is recognized at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group’s right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group’s unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group’s obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue from contracts with customers (upon application of IFRS 15 in accordance with transitions in note 2) (continued)

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

Input method

The progress towards complete satisfaction of a performance obligation is measured based on input method, which is to recognize revenue on the basis of the Group's efforts or inputs to the satisfaction of a performance obligation relative to the total expected inputs to the satisfaction of that performance obligation, that best depict the Group's performance in transferring control of goods or services.

Existence of significant financing component

In determining the transaction price, the Group adjusts the promised amount of consideration for the effects of the time value of money if the timing of payments agreed (either explicitly or implicitly) provides the customer or the Group with a significant benefit of financing the transfer of goods or services to the customer. In those circumstances, the contract contains a significant financing component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the contract or implied by the payment terms agreed to by the parties to the contract.

For contracts where the period between payment and transfer of the associated goods or services is less than one year, the Group applies the practical expedient of not adjusting the transaction price for any significant financing component.

For advance payments received from customers before the transfer of the associated goods or services in which the Group adjusts for the promised amount of consideration for a significant financing component, the Group applies a discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. The relevant interest expenses during the period between the advance payments were received and the transfer of the associated goods and services are accounted for on the same basis as other borrowing costs.

Incremental costs of obtaining a contract

Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained.

The Group recognizes such costs (e.g. sales commissions) as an asset if it expects to recover these costs. The asset so recognized is subsequently amortized to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate.

The Group applies the practical expedient of expensing all incremental costs to obtain a contract if these costs would otherwise have been fully amortized to profit or loss within one year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (prior to January 1, 2018)

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue is recognized when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Property sales

Revenue from the property sales in the ordinary course of business is recognized when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the properties, which is when the construction of relevant properties has been completed, upon delivery, and collectability of related receivables is reasonably assured;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the properties sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Deposits received from purchasers prior to meeting the above criteria for revenue recognition are included in the consolidated statement of financial position under current liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (prior to January 1, 2018) (continued)

Revenue from construction contract

Revenue from construction contract is recognized by reference to the recoverable costs incurred during the period plus the fee earned, measured by the proportion that costs incurred to date bear to the estimated total costs of the contract.

When the outcome of a construction contract can be estimated reliably, revenue from fixed price contracts and cost plus contracts is recognized by reference to the recoverable costs incurred during the period plus the fee earned, measured by the proportion that costs incurred to date bear to the estimated total costs of the contract.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognized as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

Where contract costs incurred to date plus recognized profits less recognized losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognized profits less recognized losses, the surplus is shown as amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under trade receivables.

Service income

Service income is recognized when the services are provided.

Interest income

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognized in profit or loss on a straight-line basis over the term of the relevant lease.

Rental income which are derived from the Group's ordinary course of business are presented as revenue.

The Group as lessee

Operating lease payments are recognized as an expense on a straight-line basis over the term of the relevant lease.

Leasehold land for own use

When the Group makes payments for a property interest which includes both leasehold land and building elements, the Group assesses the classification of each element as a finance lease or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases, in which case the entire property is accounted as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is released over the lease term on a straight-line basis except for those that are classified and accounted for as investment properties under the fair value model. When the lease payments cannot be allocated reliably between the leasehold land and building elements, the entire property is generally classified as if the leasehold land is under finance lease.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognized at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognized in profit or loss in the period in which they arise.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Exchange differences arising from foreign currency borrowings are included in borrowing costs to the extent that they are regarded as an adjustment to interest costs on those foreign currency borrowings.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Retirement benefit costs

Payments to defined contribution retirement benefit schemes under the state-managed retirement benefits schemes in the PRC are charged as an expense when employees have rendered service entitling them to the contributions.

Short-term and other long-term employee benefit

Short-term employee benefits are recognized at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognized as an expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognized for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognized in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Equity-settled share-based payment transactions

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity-settled share-based payment reserve. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity-settled share-based payment reserve.

When share options are exercised, the amount previously recognized in equity-settled share-based payment reserve will be transferred to share premium.

When the awarded shares are vested, the amount previously recognized in equity-settled share-based payment reserve and the amount of the relevant treasury shares is reversed and the differences arising from the reversal is adjusted to retained earnings.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from profit/loss before tax because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated statement of financial position and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from the initial recognition of assets and liabilities in a transaction (other than in a business combination) that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the liability is settled or the asset realized, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflect the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

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 they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax is recognized in profit or loss, except when it relates to items that are recognized in other comprehensive income or directly in equity, in which case the current and deferred tax is also recognized in other comprehensive income or directly in equity respectively. When current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Investment properties

Investment properties are properties held to earn rentals or/and for capital appreciation.

Investment properties are measured initially at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

Construction costs incurred for investment properties under construction are capitalized as part of the carrying amount of the investment properties under construction.

If an investment property becomes owner-occupied as evidenced by commencement of owner-occupation, the property will be reclassified as property, plant and equipment at its fair value at the date of transfer.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties (continued)

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

Property, plant and equipment

Property, plant and equipment, including land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

If an item of property, plant and equipment becomes an investment property because its use has been changed as evidenced by end of owner-occupation, any differences between the carrying amount and the fair value of this item at the date of transfer is recognized in other comprehensive income and accumulated in revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to retained earnings.

Depreciation is recognized so as to write off the cost of assets (other than properties under construction) less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately and are carried at costs less accumulated amortization and any accumulated impairment losses. Amortization for intangible assets with finite useful lives is recognized on a straight-line basis over their estimated useful lives. Amortization begins when the intangible asset is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by the management. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognized separately from goodwill and are initially recognized at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at cost less accumulated amortization and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately. Intangible assets acquired in a business combination with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured at the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

Impairment on tangible, intangible assets and contract costs other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives and contract costs to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

The recoverable amount of tangible and intangible assets are estimated individually, when it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment on tangible, intangible assets and contract costs other than goodwill (continued)

Before the Group recognizes an impairment loss for assets capitalized as contract costs under IFRS 15, the Group assesses and recognizes any impairment loss on other assets related to the relevant contracts in accordance with applicable standards. Then, impairment loss, if any, for assets capitalized as contract costs is recognized to the extent the carrying amounts exceeds the remaining amount of consideration that the Group expects to receive in exchange for related goods or services less the costs which relate directly to providing those goods or services that have not been recognized as expenses. The assets capitalized as contract costs are then included in the carrying amount of the cash-generating unit to which they belong for the purpose of evaluating impairment of that cash-generating unit.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is calculated using the weighted average method.

Transfer from inventories to investment properties carried at fair value

The Group transfers a property from inventories to investment property when there is a change in use to hold the property to earn rentals or/and for capital appreciation rather than for sale in the ordinary course of business, which is evidenced by the inception of an operating lease to another party. Transfer from inventories to investment property is evidenced by commencement of an operating lease to another party prior to January 1, 2018. Any difference between the fair value of the property at the date of transfer and its previous carrying amount is recognized in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories (continued)

Properties under development

Properties under development for sale which are intended to be sold in the ordinary course of business upon completion of development are classified as current assets, and are carried at the lower of cost and net realizable value. Cost comprises the related land cost, development expenditure incurred and, where appropriate, borrowing costs capitalized. Net realizable value represents the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale. Properties under development for sale are transferred to completed properties for sale upon completion of development.

Properties held for sale

Properties held for sale are stated at the lower of cost and net realizable value. Cost comprises the costs of land, development expenditure incurred and, where appropriate, borrowing costs capitalized. Net realizable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

Financial instruments

Financial assets and financial liabilities are recognized when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15 since January 1, 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

The effective interest method is a method of calculating the amortized cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets

Classification and subsequent measurement of financial assets (upon application of IFRS 9 in accordance with transitions in note 2)

Financial assets that meet the following conditions are subsequently measured at amortized cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in OCI if that equity investment is neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which IFRS 3 *Business Combinations* applies.

(i) Amortized cost and interest income

Interest income is recognized using the effective interest method for financial assets measured subsequently at amortized cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the amortized cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

(ii) Equity instruments designated as at FVTOCI

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognized in OCI and accumulated in the FVTOCI reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained earnings.

Dividends from these investments in equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other income" line item in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (upon application of IFRS 9 in accordance with transitions in note 2) (continued)

(iii) Financial assets at FVTPL

The Group's financial assets that do not meet the criteria for being measured at amortized cost or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognized in profit or loss. The net gain or loss recognized in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item.

Impairment of financial assets (upon application IFRS 9 with transitions in accordance with note 2)

The Group recognizes a loss allowance for ECL on financial assets which are subject to impairment under IFRS 9 (including restricted bank deposits, trade receivables arising from contracts with customers, other receivables, deposits, amounts due from related parties and bank balances), lease receivables, contract assets and financial guarantee contracts. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognizes lifetime ECL for trade receivables and contract assets arising from contracts with customers and lease receivables. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognizes lifetime ECL. The assessment of whether lifetime ECL should be recognized is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (upon application IFRS 9 with transitions in accordance with note 2) (continued)

(i) *Significant increase in credit risk*

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

The Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (upon application IFRS 9 with transitions in accordance with note 2) (continued)

(i) *Significant increase in credit risk (continued)*

For financial guarantee contracts, the date that the Group becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. The Group considers the changes in the risk that the specified debtor will default on the contract.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk.

(ii) *Definition of default*

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

(iii) *Credit-impaired financial assets*

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- (a) significant financial difficulty of the issuer or the borrower;
- (b) a breach of contract, such as a default or past due event;
- (c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- (e) the disappearance of an active market for that financial asset because of financial difficulties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (upon application IFRS 9 with transitions in accordance with note 2) (continued)

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognized in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition. For a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with IAS 17.

For a financial guarantee contract, the Group is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed. Accordingly, the expected losses is the present value of the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Group expects to receive from the holder, the debtor or any other party.

For ECL on financial guarantee contracts for which the effective interest rate cannot be determined, the Group will apply a discount rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows but only if, and to the extent that, the risks are taken into account by adjusting the discount rate instead of adjusting the cash shortfalls being discounted.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (upon application IFRS 9 with transitions in accordance with note 2) (continued)

(v) Measurement and recognition of ECL (continued)

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments;
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortized cost of the financial asset.

For financial guarantee contracts, the loss allowances are recognized at the higher of the amount of the loss allowance determined in accordance with IFRS 9; and the amount initially recognized less, where appropriate, cumulative amount of income recognized over the guarantee period.

Except for financial guarantee contracts, the Group recognizes an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables, lease receivables and contract assets where the corresponding adjustment is recognized through a loss allowance account.

Classification and subsequent measurement of financial assets (before application of IFRS 9 on January 1, 2018)

The Group's financial assets are classified into financial assets at FVTPL, loans and receivables, and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (before application of IFRS 9 on January 1, 2018) (continued)

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is (i) held for trading or (ii) it is designated as at FVTPL.

A financial asset is classified as held-for-trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at fair value through profit or loss are measured at fair value, with changes in fair value arising from re-measurement recognized directly in profit or loss in the period in which they arise. The net gain or loss recognized in profit or loss excludes any dividend or interest earned on the financial assets and is included in the “other gains and losses” line item.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from related parties, restricted bank deposits and bank balances and cash) are carried at amortized cost using the effective interest method, less any impairment.

Interest income is recognized by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment loss at the end of the reporting period.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (before application of IFRS 9 on January 1, 2018)

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Default or delinquency in interest and principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial reorganization.

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets measured at amortized cost, an impairment loss is recognized in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables and lease receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. When a trade receivable or lease receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset measured at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

On derecognition of an investment in equity instrument which the Group has elected on initial recognition/initial application to measure at FVTOCI upon application of IFRS 9, the cumulative gain or loss previously accumulated in the FVTOCI reserve is not reclassified to profit or loss, but is transferred to retained earnings.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

Treasury shares contributed by the ultimate holding company for share award scheme are initially recognized at the fair value and recorded in treasury shares reserve prior to vesting.

Financial liabilities

All financial liabilities are subsequently measured at amortized cost using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity (continued)

Financial liabilities at amortized cost

Financial liabilities including trade and other payables, amounts due to related parties, bank and trust borrowings, corporate bonds and senior notes are subsequently measured at amortized cost, using the effective interest method.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument. Financial guarantee contract liabilities are measured initially at their fair values. It is subsequently measured at the higher of:

- the amount of the loss allowance determined in accordance with IFRS 9 (since January 1, 2018)/IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* (before application of IFRS 9 on January 1, 2018); and
- the amount initially recognized less, where appropriate, cumulative amortization recognized over the guarantee period.

Derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when the Group's obligations specified in the relevant contract is discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, which are described in note 3, the Directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgments in applying accounting policies

The following are the critical judgments, apart from those involving estimations (see below), that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

Revenue recognition from property sales at a point in time

Under IFRS 15, control of the asset is transferred over time when the Group's performance does 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. The Group may not change or substitute the property unit or redirect the property unit for another use due to the contractual restrictions with the customers and thus the property unit does not have an alternative use to the Group, but significant judgment is required in determining whether the terms of the Group's contracts with customers in relation to property sales create an enforceable right to payment for the Group. The Group has considered the relevant contract terms and the legal environment. Based on the assessment, the Group concluded that it does not have an enforceable right to payment prior to transfer of the relevant properties to customers. Accordingly, revenue from the property sales is recognized at a point in time.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Critical judgments in applying accounting policies (continued)

Deferred taxation on investment properties

For the purposes of measuring deferred tax arising from investment properties that are measured using the fair value model under IAS 40 amounted to RMB19,545,072,000 (2017: RMB18,308,269,000), as at December 31, 2018, the Directors concluded that the Group's investment properties are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time. Therefore, in determining the Group's deferred tax on investment properties, the Directors have determined the presumption that investment properties measured using the fair value model are recovered through sale is rebutted and the Group estimated the deferred tax on the basis of recovering through use.

Control over subsidiaries

The Group obtained the control of Guangdong Hongtai Guotong, Tianjin Tianfu Rongsheng, Sanya Jingheng and Handan Guoxia (as defined in note 20) during the year ended December 31, 2018 although the Group has only 35% ownership interest in these entities as detailed in note 44.

The Directors assessed whether or not the Group has control over these entities based on whether the Group has the practical ability to direct the relevant activities of these entities unilaterally. According to the articles of association of these entities, the Group has 67% voting rights in the shareholders' meeting and has right to appoint 2 out of 3 directors in the board of directors of these entities. Resolutions in shareholders' meeting of these entities are passed by more than two-thirds voting rights and in the board of directors of these entities are passed by majority votes. Therefore, the Directors concluded that the Group has control over those entities.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Fair value measurement of financial instruments

The Group's equity instruments at FVTOCI, amounting to RMB220,307,000 as at December 31, 2018 are measured at fair values with fair values being determined based on unobserved inputs using valuation techniques. Judgement and estimation are required in establishing the relevant valuation techniques and the relevant inputs thereof. Changes in assumptions relating to these factors could affect the reported fair values of these instruments. See note 50 for further disclosures.

Provision of ECL for trade receivables, contract assets and lease receivables

The Group uses provision matrix to calculate ECL for the trade receivables and contract assets arising from contracts with customers and lease receivables. The provision rates are based on internal credit ratings as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration reasonable and supportable forward-looking information that is available without undue cost or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, trade receivables, lease receivables and contract assets with significant balances and credit impaired are assessed for ECL individually.

The provision of ECL is sensitive to changes in estimates. The information about the ECL, the Group's trade and lease receivables, and contract assets are disclosed in notes 50, 29, and 30 respectively.

Construction costs allocation

Certain projects of the Group are divided into several phases according to the development and delivery plans. Cost of sales including construction cost specific to the phases and common costs allocated to the phases are calculated based on the management's best estimation of the total development costs for the whole project and the allocation to each phase. When the actual common costs incurred are significantly more or less than expected, or changes in circumstances which result in revision of the management's estimates, the effect of such change is recognized prospectively in the profit or loss in the period of the change.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Key sources of estimation uncertainty (continued)

Primary land construction and development contracts

The Group carried out primary land construction and development projects for the Beijing Municipal People's Government (the "BMPG"). The Group recognized contract revenue on the primary land construction and development projects by reference to the recoverable costs incurred plus the fixed margin in accordance with relevant rules and regulations issued by the BMPG and other relevant agreements. Construction and development costs mainly comprise resettlement compensation, sub-contracting charges and costs of construction materials and are estimated by the management by reference to quotations provided by contractors and vendors and the past experience of the management. Estimation of the contract revenue and recoverable costs is subject to final approval from the BMPG. The Directors estimate contract revenue and recoverable costs based on latest available budgets of each primary land construction and development projects and current market conditions to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved. The final amounts will be approved by the BMPG and the differences from the estimation and approval will effect contract profit in the period in which the approval has been obtained.

Valuation of investment properties

External valuer was engaged to carry out an independent valuation of the Group's investment property portfolio as at December 31, 2018. The fair value of each investment property is individually determined at the end of the reporting period. The external valuer has applied the income capitalization approach and the direct comparison method. These methodologies are based on an estimation of future results, a set of assumptions and a determination of relevant key inputs specific to each property to reflect its tenancy and cashflow profile. Changes to these estimation, assumptions and key inputs would result in changes in the fair values of the Group's investment properties and the corresponding adjustments would be recognized in profit or loss.

Valuation of properties under development for sale acquired in business combination

External valuer was engaged to carry out an independent valuation of the fair value of the identifiable assets and liabilities acquired in business combination as detailed in note 44 as of the date of acquisition. The fair value of each property under development for sale is individually determined at the date of acquisition as the significant judgements involved in the valuation. The valuation process is based on an estimation of future results, a set of assumptions and a determination of key inputs, which are judgmental. Any changes to these inputs may have a significant impact on the fair value of properties under development for sale as of the date of acquisition. The management determined the fair value of the Group's properties under development for sale, together with other identifiable assets acquired and liabilities incurred, as of the date of acquisition with the assistance of an external valuer. The external valuer has applied the income approach and the direct comparison method. These methodologies are based on an estimation of future results, a set of assumptions and a determination of relevant key inputs specific to each property to reflect its cashflow profile.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Key sources of estimation uncertainty (continued)

Income tax expense

Deferred tax assets of RMB510,513,000 (2017: RMB404,235,000) were recognized as at December 31, 2018, after offsetting certain deferred tax liabilities as set out in note 24. No deferred tax assets were recognized on the tax losses of RMB349,905,000 (2017: RMB217,419,000) due to the unpredictability of future profit streams. The recognition of the deferred tax assets mainly depends on whether sufficient taxable profits or taxable temporary differences will be available in the future. The Directors determined the deferred tax assets based on the enacted or substantially enacted tax rates and profit forecasts of the Group for coming years during which the deferred tax assets are expected to be utilized. The Directors reviewed the assumptions and profit forecasts at the end of each reporting period. In cases where the actual future profits generated are more or less than expected, or changes in facts and circumstances, an additional recognition or a reversal of deferred tax assets may arise, which would be recognized in the profit or loss for the period in which such a recognition or reversal takes place.

Land appreciation tax (“LAT”)

The Group is subject to LAT in the PRC. However, the implementation and settlement of the tax varies amongst different tax jurisdictions in various cities of the PRC and certain property development projects of the Group have not yet finalized their LAT calculations and payments with local tax authorities in the PRC. Accordingly, significant estimation is required in determining the amount of LAT and its related enterprise income tax. The Group recognized the LAT based on the management’s best estimates. The final tax outcome could be different from the amounts that were initially recorded, and these differences will impact the income tax expense in the period in which such tax is finalized with local tax authorities.

LAT payable of the Group amounted to RMB1,666,300,000 (2017: RMB1,489,095,000) as at December 31, 2018.

5. REVENUE

For the year ended December 31, 2018

(i) Disaggregation of revenue from contracts with customers

| | Property development RMB'000 | Primary land construction and development services RMB'000 | Property investment RMB'000 | Property management and related services RMB'000 | Total RMB'000 |
|--------------------------------------|---------------------------------|---|--------------------------------|---|------------------|
| Geographical market | | | | | |
| Mainland China | 5,924,612 | 156,451 | — | 21,231 | 6,102,294 |
| Timing of revenue recognition | | | | | |
| A point in time | 5,924,612 | — | — | — | 5,924,612 |
| Over time | — | 156,451 | — | 21,231 | 177,682 |
| Total | 5,924,612 | 156,451 | — | 21,231 | 6,102,294 |

Set out below is the reconciliation of the revenue from contracts with customers with the amounts disclosed in the segment information.

| | Property development RMB'000 | Primary land construction and development services RMB'000 | Property investment RMB'000 | Property management and related services RMB'000 | Total RMB'000 |
|---|---------------------------------|---|--------------------------------|---|------------------|
| Revenue disclosed in segment information | | | | | |
| External customers | 5,924,612 | 156,451 | 510,191 | 21,231 | 6,612,485 |
| Less: rental income | — | — | (510,191) | — | (510,191) |
| Revenue from contracts with customers | 5,924,612 | 156,451 | — | 21,231 | 6,102,294 |

5. REVENUE (continued)

For the year ended December 31, 2018 (continued)

(ii) Performance obligations for contracts with customers

Properties sales arising from property development (revenue recognized at a point in time)

For contracts entered into with customers on sales of properties, the relevant properties specified in the contracts are with no alternative use. Taking into consideration of the relevant contract terms, the legal environment, the Group concluded that the Group does not have an enforceable right to payment prior to transfer of the relevant properties to customers. Revenue from sales of residential properties is therefore recognized at a point in time when the completed property is transferred to customers, being at the point that the customer obtains the control of the completed property and the Group has present right to payment and collection of the consideration is probable.

The Group receives a deposit ranging from 10% to 20% of the contract price from customers when they sign the sale and purchase agreement. However, depending on market conditions, the Group may offer a discount to certain customers, provided that the customers agree to make a full payment during the construction period. Such advance payment will be recognized as contract liabilities.

The Group considers the advance payment schemes contain significant financing component and accordingly the amount of consideration is adjusted for the effects of the time value of money taking into consideration the credit characteristics of the Group. As this accrual increases the amount of the contract liabilities during the construction period, a corresponding increases in revenue will be recognized when control of the completed property is transferred to the customer.

Construction and development services from primary land construction services (revenue recognized over time)

The Group provides primary land construction services in order to access potentially available land reserves for property development. Such services are recognized as a performance obligation satisfied over time as the Group creates or enhances an asset that the customer controls as the asset is created or enhanced. Revenue is recognized for these construction services based on the stage of completion of the contract using input method.

A contract asset, net of contract liability related to the same contract, is recognized over the period in which the services are performed representing the Group's right to consideration for the services performed because the rights are conditioned on the Group's future performance in achieving specified milestones. The contract assets are transferred to trade receivables when the rights become unconditional.

Property management and related services (revenue recognized over time)

Revenue arising from property management and related services is generally recognized over time as the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs.

5. REVENUE (continued)

For the year ended December 31, 2017

An analysis of the Group's revenue for the year ended December 31, 2017 is as follows:

| | RMB'000 |
|--|-----------|
| Property sales | 6,381,746 |
| Construction and development services | 75,095 |
| Property rental | 310,293 |
| Property management and related services | 20,281 |
| Total | 6,787,415 |

6. SEGMENT INFORMATION

The Group is organized into business units based on their types of activities. These business units are the basis of information that is prepared and reported to the Group's chief operating decision maker (i.e. the Directors) for the purposes of resource allocation and assessment of performance. The Group's operating segments under IFRS 8 *Operating Segments* are identified as the following four business units:

Property development: This segment develops and sells commercial and residential properties.

Primary land construction and development services: This segment derives revenue from primary land development, including services for resettlement, construction of land infrastructure and ancillary public facilities on land owned by the local governments.

Property investment: This segment derives rental income from investment properties developed by the Group.

Property management and related services: This segment derives income from property management and related services.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

6. SEGMENT INFORMATION (continued)

Segment revenue and results

The following is the analysis of the Group's revenue and results by reportable and operating segment.

| | Property development RMB'000 | Primary land construction and development services RMB'000 | Property investment RMB'000 | Property management and related services RMB'000 | Total RMB'000 |
|---|---------------------------------|---|--------------------------------|---|------------------|
| Year ended December 31, 2018 | | | | | |
| Revenue from external customers and segment revenue | 5,924,612 | 156,451 | 510,191 | 21,231 | 6,612,485 |
| Segment profit | 1,583,508 | 2,426 | 354,603 | 8,587 | 1,949,124 |
| Year ended December 31, 2017 | | | | | |
| Revenue from external customers and segment revenue | 6,381,746 | 75,095 | 310,293 | 20,281 | 6,787,415 |
| Segment profit | 2,452,311 | 1,164 | 180,073 | 9,544 | 2,643,092 |

The segment profits can be reconciled to the profit before taxation as follows:

| | Year ended December 31, | |
|---|--------------------------------|------------------|
| | 2018 | 2017 |
| | RMB'000 | RMB'000 |
| Segment profit | 1,949,124 | 2,643,092 |
| Other gains and losses | 67,364 | 161,185 |
| Other income | 159,267 | 88,241 |
| Change in fair value of investment properties | 907,791 | 955,743 |
| Unallocated administrative expenses | (64,536) | (29,819) |
| Other expenses | (53,252) | (45,676) |
| Share of losses of joint ventures | (11,939) | (936) |
| Share of losses of associates | (10,905) | (6,014) |
| Finance costs | (245,446) | (198,683) |
| Consolidated profit before tax | 2,697,468 | 3,567,133 |

6. SEGMENT INFORMATION (continued)

Segment revenue and results (continued)

The accounting policies applied in determining segment revenue and segment results of the operating segments are the same as the Group's accounting policies described in note 3. Segment profit represents the profit earned by each segment without allocation of other gains and losses, other income, change in fair value of investment properties, other expenses, share of losses of joint ventures, share of losses of associates, finance costs and unallocated administrative expenses, including auditor's remuneration and directors' emoluments. This is the measure reported to the Group's chief operating decision maker for the purpose of resources allocation and performance assessment.

Other segment information

Amounts included in the measurement of segment profit:

| | Property development RMB'000 | Primary land construction and development service RMB'000 | Property investment RMB'000 | Property management and related services RMB'000 | Unallocated amount RMB'000 | Total RMB'000 |
|-------------------------------------|---------------------------------|--|--------------------------------|---|-------------------------------|------------------|
| Year ended December 31, 2018 | | | | | | |
| Depreciation and amortization | 25,355 | — | 4,800 | 5,249 | 38,861 | 74,265 |
| Release of prepaid lease payments | — | — | 81 | 26 | 5,928 | 6,035 |
| Year ended December 31, 2017 | | | | | | |
| Depreciation and amortization | 16,164 | — | 5,254 | 7,905 | 3,884 | 33,207 |
| Release of prepaid lease payments | — | — | 81 | 26 | 5,928 | 6,035 |

No segment assets and liabilities are presented as they were not regularly provided to the chief operating decision maker for the purpose of resources allocation and performance assessment.

Geographical information

All the revenue and operating results of the Group is derived from the PRC based on location of the operations. All the Group's non-current assets (excluding financial instruments and deferred tax assets) are located in the PRC based on geographical location of the assets or the associates' and joint venture's operation, as appropriate.

Revenue from major customers

No revenue from transactions with a single external customer amounted to 10% or more of the Group's revenue during the years ended December 31, 2018 and 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

7. OTHER GAINS AND LOSSES

| | Year ended December 31, | |
|--|-------------------------|-----------------|
| | 2018 RMB'000 | 2017 RMB'000 |
| Net foreign exchange (losses) gains | (54,320) | 161,278 |
| Gain (loss) on disposal of property, plant and equipment | 15 | (93) |
| Gain on disposal of a subsidiary (note 45) | 405 | — |
| Gain from changes in fair value of financial assets at FVTPL | 14 | — |
| Gain from remeasurement of previously held equity interest (note 44) | 121,250 | — |
| | 67,364 | 161,185 |

8. OTHER INCOME

| | Year ended December 31, | |
|---|-------------------------|-----------------|
| | 2018 RMB'000 | 2017 RMB'000 |
| Interest income from related parties | 123,947 | 69,884 |
| Interest income from bank deposits | 13,016 | 10,081 |
| Interest income from entrusted financial products | 8,664 | — |
| Total interest income | 145,627 | 79,965 |
| Compensation received | 4,332 | 2,437 |
| Others | 9,308 | 5,839 |
| | 159,267 | 88,241 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

9. OTHER EXPENSES

| | Year ended December 31, | |
|-------------------|-------------------------|-----------------|
| | 2018 RMB'000 | 2017 RMB'000 |
| Donations | 28,725 | 27,896 |
| Compensation paid | 21,546 | 13,159 |
| Others | 2,981 | 4,621 |
| | 53,252 | 45,676 |

10. FINANCE COSTS

| | Year ended December 31, | |
|---|-------------------------|--------------------|
| | 2018 RMB'000 | 2017 RMB'000 |
| Interest on bank borrowings | 1,101,531 | 1,102,090 |
| Interest on corporate bonds | 260,119 | 282,137 |
| Interest on senior notes | 358,780 | 121,210 |
| Interest on trust borrowings | 539,119 | 210,589 |
| Interest on significant financing component of contract liabilities | 402,582 | — |
| Exchange loss on senior notes and borrowings | 319,846 | — |
| Total interest expenses | 2,981,977 | 1,716,026 |
| Less: Amounts capitalized to properties under development and investment properties under construction | (2,736,531) | (1,517,343) |
| | 245,446 | 198,683 |

Interests capitalized arose from borrowings made specifically for the purpose of constructing the qualifying assets, which bore annual interest at rates from 4.75% to 10.00% (2017: 4.75% to 9.80%) per annum and general borrowings pool calculated by applying a capitalization rate of 10.27% (2017: 7.01%) per annum on expenditure on the qualifying assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

11. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging (crediting):

| | Year ended December 31, | |
|--|-------------------------|-----------------|
| | 2018 RMB'000 | 2017 RMB'000 |
| Directors' emoluments (note 12) | 11,559 | 12,083 |
| Other staff costs: | | |
| – Salaries and other benefits | 363,939 | 306,153 |
| – Retirement benefit contributions | 24,174 | 24,146 |
| – Equity-settled share-based payments | — | 4,831 |
| Total staff costs | 399,672 | 347,213 |
| Less: Amounts capitalized to properties under development and investment properties under construction (Note) | (144,390) | (190,764) |
| | 255,282 | 156,449 |
| Cost of properties sold recognized as expense | 3,802,042 | 3,471,511 |
| Auditor's remuneration | 5,141 | 4,186 |
| Depreciation of property, plant and equipment | 72,280 | 31,715 |
| Amortization of intangible assets (included in administrative expenses) | 1,985 | 1,492 |
| Release of prepaid lease payments (included in administrative expense) | 6,035 | 6,035 |
| Operating lease rental expenses | 2,040 | 1,793 |
| Rental income from investment properties | (510,191) | (310,293) |
| Less: direct operating expense | 136,474 | 117,204 |
| | (373,717) | (193,089) |

Note: The amount capitalized mainly represents costs of certain staff of the project management department and the design department, who were assigned to construction sites and engaged in specific construction projects directly.

12. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

Details of the emoluments paid or payable to the directors are as follows:

| | Fees RMB'000 | Salaries and other benefits RMB'000 | Performance bonuses RMB'000 | Retirement benefit contributions RMB'000 | Equity-settled share-based payment RMB'000 | Total RMB'000 |
|---|-----------------|--|-----------------------------------|---|---|------------------|
| For the year ended December 31, 2018 | | | | | | |
| Executive Directors | | | | | | |
| Mr. Zhang Zhangsun | — | 3,000 | — | — | — | 3,000 |
| Ms. Ruan Wenjuan | — | 3,035 | 100 | 55 | — | 3,190 |
| Ms. Zhang Jin | — | 1,880 | 355 | 35 | — | 2,270 |
| Mr. Ge Weiguang | — | 2,070 | 50 | 55 | — | 2,175 |
| Independent Non-Executive Directors | | | | | | |
| Mr. Luo Zhenbang | 308 | — | — | — | — | 308 |
| Mr. Lai Siming | 308 | — | — | — | — | 308 |
| Ms. Chen Jingru | 308 | — | — | — | — | 308 |
| | 924 | 9,985 | 505 | 145 | — | 11,559 |
| For the year ended December 31, 2017 | | | | | | |
| Executive Directors | | | | | | |
| Mr. Zhang Zhangsun | — | 2,600 | 400 | — | — | 3,000 |
| Ms. Ruan Wenjuan | — | 2,919 | 450 | 51 | 125 | 3,545 |
| Ms. Zhang Jin | — | 2,082 | 179 | 32 | 125 | 2,418 |
| Mr. Ge Weiguang | — | 1,994 | 170 | 51 | 125 | 2,340 |
| Independent Non-Executive Directors | | | | | | |
| Mr. Luo Zhenbang | 260 | — | — | — | — | 260 |
| Mr. Lai Siming | 260 | — | — | — | — | 260 |
| Ms. Chen Jingru | 260 | — | — | — | — | 260 |
| | 780 | 9,595 | 1,199 | 134 | 375 | 12,083 |

Notes:

- (a) Mr. Zhang Zhangsun is the chief executive of the Company and his emoluments disclosed above include those for services rendered by him as the chief executive.
- (b) Ms. Ruan Wenjuan, Ms. Zhang Jin and Mr. Ge Weiguang are the executive directors and vice presidents of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

12. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (continued)

Performances bonuses were determined by the management having regard to the performance of the directors and the Group's operating results.

The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Group.

The independent non-executive directors' emoluments shown above were mainly for their services as directors of the Company.

No directors of the Company waived any emoluments in both years presented.

Of the five individuals with the highest emoluments in the Group, four (2017: four) are directors of the Company whose emoluments are disclosed above. The emolument of the remaining one (2017: one) individual is as follows:

| | Year ended December 31, | |
|------------------------------------|-------------------------|-----------------|
| | 2018 RMB'000 | 2017 RMB'000 |
| Salaries and other benefits | 2,181 | 1,782 |
| Performance bonuses | 475 | 267 |
| Retirement benefit contributions | 5 | 5 |
| Equity-settled share-based payment | — | 1,982 |
| | 2,661 | 4,036 |

The number of the highest paid employees who are not directors of the Company whose remuneration fell within the following bands is as follow:

| | 2018 Number of employees | 2017 Number of employees |
|--------------------------------|--------------------------------|--------------------------------|
| Hong Kong dollars ("HK\$") | | |
| HK\$3,000,001 to HK\$3,500,000 | 1 | — |
| HK\$4,500,001 to HK\$5,000,000 | — | 1 |

During the year, no emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

13. INCOME TAX EXPENSE

| | Year ended December 31, | |
|---|-------------------------|------------------|
| | 2018 RMB'000 | 2017 RMB'000 |
| Current tax | | |
| – PRC enterprise income tax | 438,057 | 611,243 |
| – PRC dividend withholding income tax | 35,000 | — |
| – LAT | 477,559 | 797,135 |
| Underprovision in respect of prior year | 242 | — |
| | 950,858 | 1,408,378 |
| Deferred tax (note 24) | 177,379 | 119,244 |
| Income tax expense | 1,128,237 | 1,527,622 |

Pursuant to the PRC Enterprise Income Tax Law promulgated on March 16, 2007, the PRC enterprise income tax for both domestic and foreign-invested enterprises has been unified at the income tax rate of 25% effective from January 1, 2008 onwards.

The provision of LAT is estimated according to the requirements set forth in the relevant PRC tax laws and regulations. LAT has been provided at ranges of progressive rates of the appreciation value, with certain allowable exemptions and deductions.

In accordance with the PRC tax circular (Guoshuihan [2008] 112) effective from January 1, 2008, the PRC withholding income tax at the rate of 10% is applicable to dividends to “non-resident” investors who do not have an establishment or business in the PRC. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to the undistributed profits earned by the PRC subsidiaries since January 1, 2008 amounting to RMB4,825,427,000 (2017: RMB4,911,676,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

13. INCOME TAX EXPENSE (continued)

No provision for Hong Kong Profits Tax has been made as the income of the companies comprising the Group neither arises in, nor is derived from Hong Kong during both years.

The income tax expense for the year can be reconciled from the profit before tax per consolidated statement of profit or loss and other comprehensive income as follows:

| | Year ended December 31, | |
|---|-------------------------|-----------------|
| | 2018 RMB'000 | 2017 RMB'000 |
| Profit before tax | 2,697,468 | 3,567,133 |
| Tax at PRC enterprise income tax rate of 25% | 674,367 | 891,783 |
| LAT | 477,559 | 797,135 |
| Tax effect of LAT | (119,390) | (199,284) |
| Tax effect of expenses not deductible for tax purpose | 51,395 | 15,348 |
| Tax effect of income not taxable for tax purpose | (30,313) | — |
| Tax effect of share of results of associates | 2,726 | 1,504 |
| Tax effect of share of results of joint ventures | 2,985 | 234 |
| Tax effect of tax losses not recognized | 35,324 | 20,911 |
| Utilization of tax loss previously not recognized | (1,658) | (9) |
| PRC dividend withholding income tax | 35,000 | — |
| Underprovision in prior year | 242 | — |
| Income tax expense for the year | 1,128,237 | 1,527,622 |

14. EARNINGS PER SHARE

| | Year ended December 31, | |
|--|-------------------------|-----------------|
| | 2018 RMB'000 | 2017 RMB'000 |
| Earnings: | | |
| Profit for the year attributable to the owners of the Company for the purposes of basic and diluted earnings per share | 1,008,784 | 1,749,841 |
| | | |
| | Year ended December 31, | |
| | 2018 '000 | 2017 '000 |
| Number of shares: | | |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | 4,444,285 | 4,434,150 |
| Effect of dilutive potential ordinary shares: | | |
| Share options issued by the Company | 19,761 | 23,492 |
| Share awards issued by the Company | — | 5,772 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | 4,464,046 | 4,463,414 |

The number of shares adopted in the calculation of the basic earnings per share for the year ended December 31, 2017 has been arrived at after eliminating the unvested shares of the Company held under the Company's share award scheme.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

15. DIVIDENDS

| | Year ended December 31, | |
|--|-------------------------|-----------------|
| | 2018 RMB'000 | 2017 RMB'000 |
| Dividends for ordinary shareholders of the Company recognized as distribution during the year: | | |
| 2018 Interim – nil (2017: 2017 interim dividend HK7.52 cents per share) | — | 300,000 |
| 2017 Final – HK8.07 cents (2017: 2016 final dividend HK6.04 cents) per share | 300,000 | 240,000 |
| | 300,000 | 540,000 |

Subsequent to the end of the reporting period, a final dividend in respect of the year ended December 31, 2018 of HK5.64 cents per share, totalling HK\$250,665,000 (equivalent to RMB220,000,000) has been proposed by the board of directors and is subject to approval by the shareholders of the Company at the forthcoming annual general meeting.

16. INVESTMENT PROPERTIES

| | Completed investment properties RMB'000 | Investment properties under construction RMB'000 | Total RMB'000 |
|---|--|---|-------------------|
| Fair value | | | |
| At January 1, 2017 | 9,844,500 | 6,830,000 | 16,674,500 |
| Additions | 122,249 | 792,708 | 914,957 |
| Reclassification | 5,329,818 | (5,329,818) | — |
| Net increase in fair value recognized in profit or loss | 887,633 | 68,110 | 955,743 |
| Transfers to property, plant and equipment | (597,931) | — | (597,931) |
| Transfers from property, plant and equipment | 361,000 | — | 361,000 |
| At December 31, 2017 | 15,947,269 | 2,361,000 | 18,308,269 |
| Additions | — | 263,503 | 263,503 |
| Net increase in fair value recognized in profit or loss | 839,112 | 68,679 | 907,791 |
| Transfer from properties held for sale | 76,897 | — | 76,897 |
| Transfer to property, plant and equipment | (240,206) | — | (240,206) |
| Transfer from properties under development for sale | — | 228,818 | 228,818 |
| At December 31, 2018 | 16,623,072 | 2,922,000 | 19,545,072 |

16. INVESTMENT PROPERTIES (continued)

The investment properties are all situated in the PRC. The fair value of the Group's investment properties, including the Group's property interests held under operating leases classified and accounted for as investment properties as at December 31, 2018 and 2017 have been arrived at on the basis of valuations carried out on those dates by Colliers International (Hong Kong) Ltd, a firm of independent qualified external valuer not connected with the Group, who have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations.

As at December 31, 2018, the valuations of completed investment properties are arrived at with adoption of direct comparison approach assuming sale of each of these properties in its existing state by making reference to comparable sales transactions as available in the relevant market and also consider income approach by undertaking an estimation of future cash flows and taking into account the time value of money. The income is projected over the investment cycle and the net income is calculated after the deduction of capital, operating, and other necessary expenses.

As at December 31, 2017, the valuations of completed investment properties are arrived at with adoption of direct comparison approach assuming sale of each of these properties in its existing state by making reference to comparable sales transactions as available in the relevant market and also consider income approach by capitalization of the net rental income derived from the existing tenancy agreements with due allowance for the reversionary income potential of the properties.

Fair values of the investment properties under development are generally derived using the residual method. This valuation method is essentially a means of valuing the land and building by reference to its development potential by deducting development costs together with developer's profit and risk from the estimated capital value of the proposed development assuming completed in accordance with the existing development plans as at the date of valuation, which duly reflected the risks associated with the development.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

The fair value of the Group's investment properties at December 31, 2018 and 2017 are grouped into Level 3 of fair value measurement. There were no transfers into or out of Level 3 in both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

16. INVESTMENT PROPERTIES (continued)

The following table gives information about how the fair values of these investment properties are determined (in particular, the valuation techniques and inputs used). The Group considered multiple valuation techniques to the extent appropriate. A fair value measurement is usually the point within that range that is most representative of fair value in the circumstances.

| Investment properties of the Group | Significant unobservable input(s) | | | |
|------------------------------------|-----------------------------------|---------------|---------------------------------|-----------------------|
| | Capitalization Rate | Discount Rate | Monthly Unit Rent on GFA | Unit Sale Rate |
| Completed Investment Properties | % | % | RMB/sq.m./month | RMB/sq.m |
| | 2018 | 2018 | 2018 | 2018 |
| - Beijing Area | | | | |
| - Office | 4.25 - 4.50 | 7.00 - 7.50 | 183 - 348 | 36,500 - 82,000 |
| - Retail | 2.50 - 5.25 | 6.00 - 9.00 | 138 - 665 | 28,700 - 108,800 |
| - Car Parking Space | 3.50 - 4.25 | 4.50 - 5.25 | 950/lot | 310,800 - 385,000/lot |
| - Shantou Area | | | | |
| - Retail | 6.50 | 8.50 | General: 71 Large Tenant: 48 | 9,100 |
| - Shenyang Area | | | | |
| - Retail | 5.00 | 8.00 - 8.50 | 54 - 97 | 6,600 - 10,100 |
| - Haikou Area | | | | |
| - Office | 6.00 | 8.75 | 132 | 21,400 |

| Investment Properties Under Construction | Capitalization rate | Discount rate | Monthly Unit Rent on GFA | Unit Sale Rate | Expected develop profit margin | Total development costs to completion |
|--|---------------------|---------------|--------------------------|----------------|--------------------------------|---------------------------------------|
| | % | % | RMB/sq.m./month | RMB/sq.m | % | RMB |
| | 2018 | 2018 | 2018 | 2018 | 2018 | 2018 |
| - Shenzhen Area | | | | | | |
| - Office | 5.00 | 8.50 | 140 | — | 2.5 | 76,769,070 |
| - Foshan Area | | | | | | |
| - Retail | 5.50 | 9.00 | 244 | 17,700 | 15.0 | 2,280,000,000 |
| - Car Parking Space | 5.50 | 9.00 | 571/lot | | 15.0 | |
| - Handan Area | | | | | | |
| - Retail | 6.50 | 9.00 | 50 | 6,100 | 10.0 | 632,022,471 |

16. INVESTMENT PROPERTIES (continued)

| Investment properties of the Group | Significant unobservable input(s) | | | | |
|--|-----------------------------------|-----------------------------|----------------------|--------------------------------|---------------------------------------|
| | Capitalization Rate | Monthly Unit Rent on GFA | Unit Sale Rate | | |
| Completed Investment Properties | % 2017 | RMB/sq.m./month 2017 | RMB/sq.m 2017 | | |
| - Beijing Area | | | | | |
| - Office | 4.25 - 5.00 | 170 - 350 | 34,800 - 75,400 | | |
| - Retail | 2.00 - 5.20 | 148 - 654 | 28,464 - 105,800 | | |
| - Car Parking Space | 3.25 - 3.75 | 900 - 1,035/lot | 250,000- 317,500/lot | | |
| - Shantou Area | | | | | |
| - Retail | 6.5 - 6.75 | General: 71 | 12,250 | | |
| - Shenyang Area | | | | | |
| - Retail | 4.50 - 5.00 | 40-62 | 6,600 - 10,030 | | |
| Investment Properties Under Construction | Capitalization rate | Monthly Unit Rent on GFA | Unit Sale Rate | Expected develop profit margin | Total development costs to completion |
| | % 2017 | RMB/sq.m./ month 2017 | RMB/sq.m 2017 | % 2017 | RMB 2017 |
| - Shenzhen Area | | | | | |
| - Office | 4.75 | 146 | — | 2.5 | 76,769,070 |
| - Foshan Area | | | | | |
| - Retail | 6.25 | 304 | 32,800 | 15.0 | 2,280,000,000 |
| - Car Parking Space | 4.00 - 6.25 | 555/lot | 120,120/lot | 15.0 | |

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16. INVESTMENT PROPERTIES (continued)

A slight increase in the discount rate used would result in a significant decrease in the fair value measurement of the investment properties, and vice versa. A slight increase in the capitalization rate used would result in a significant decrease in the fair value measurement of the investment properties, and vice versa. A significant increase in the market monthly rent used would result in a significant increase in the fair value measurement of the investment properties, and vice versa. An increase in the unit sale rate used would result in an increase in the fair value measurement of the investment properties by the same percentage increase, and vice versa. Increases in the future development costs would result in a decrease in the fair value measurement of the investment properties by the same percentage increase, and vice versa. A significant increase in the expected profit margin would result in a significant decrease in fair value, and vice versa.

In estimating the fair value of the investment properties, the Group uses market observable data to the extent it is available. The management works closely with the external valuer to establish the appropriate valuation techniques and inputs to the model.

The Group had pledged investment properties of approximately RMB17,675,155,000 (2017: RMB16,769,654,000) at December 31, 2018 to secure bank and trust borrowings granted to the Group as set out in note 46.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

17. PROPERTY, PLANT AND EQUIPMENT

| | Leasehold land and buildings RMB'000 | Construction in progress RMB'000 | Leasehold improvement RMB'000 | Motor vehicles RMB'000 | Electronic equipment and furniture RMB'000 | Total RMB'000 |
|--|---|--|-------------------------------------|------------------------------|--|------------------|
| Cost | | | | | | |
| At January 1, 2017 | 148,530 | 59,299 | 67,122 | 63,130 | 25,627 | 363,708 |
| Additions | 6,594 | 80,376 | 22,503 | 7,949 | 4,487 | 121,909 |
| Transfer from investment properties | 597,931 | — | — | — | — | 597,931 |
| Disposals | — | — | — | (2,594) | (1,171) | (3,765) |
| Transfer to investment properties | (98,991) | — | — | — | — | (98,991) |
| At December 31, 2017 | 654,064 | 139,675 | 89,625 | 68,485 | 28,943 | 980,792 |
| Additions | — | 633,151 | 19,039 | 3,258 | 5,303 | 660,751 |
| Acquired on acquisition of subsidiaries (note 44) | — | — | — | 7,375 | 1,712 | 9,087 |
| Transfer from investment properties | 240,206 | — | — | — | — | 240,206 |
| Disposals | — | — | — | (397) | (222) | (619) |
| Disposal a subsidiary | — | — | — | — | (13) | (13) |
| At December 31, 2018 | 894,270 | 772,826 | 108,664 | 78,721 | 35,723 | 1,890,204 |
| Depreciation | | | | | | |
| At January 1, 2017 | 72,270 | — | 43,440 | 37,457 | 12,073 | 165,240 |
| Charge for the year | 9,107 | — | 10,019 | 8,046 | 4,543 | 31,715 |
| Eliminated upon disposals | — | — | — | (2,405) | (1,076) | (3,481) |
| Transfer to investment properties | (62,940) | — | — | — | — | (62,940) |
| At December 31, 2017 | 18,437 | — | 53,459 | 43,098 | 15,540 | 130,534 |
| Charge for the year | 44,093 | — | 12,429 | 9,671 | 6,087 | 72,280 |
| Eliminated upon disposals | — | — | — | (47) | (216) | (263) |
| At December 31, 2018 | 62,530 | — | 65,888 | 52,722 | 21,411 | 202,551 |
| Carrying amounts | | | | | | |
| At December 31, 2018 | 831,740 | 772,826 | 42,776 | 25,999 | 14,312 | 1,687,653 |
| At December 31, 2017 | 635,627 | 139,675 | 36,166 | 25,387 | 13,403 | 850,258 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

17. PROPERTY, PLANT AND EQUIPMENT (continued)

As at December 31, 2018, leasehold land and buildings with carrying amount of approximately RMB814,801,000 (2017: RMB617,349,000) were pledged to banks to secure bank and trust borrowings granted to the Group as set out in note 46.

The above items of property, plant and equipment, other than construction in progress, are depreciated using the straight-line method after taking into account of their estimated residual values over the following estimated useful lives:

| | |
|------------------------------------|---|
| Leasehold land and buildings | Over the shorter of the term of the lease or 20 years |
| Leasehold improvement | Over the shorter of the term of the lease or 5 years |
| Motor vehicles | 5 years |
| Electronic equipment and furniture | 5 years |

As at December 31, 2018, the Group was in the process of obtaining the certificates of land use rights of RMB417,897,000 (2017: nil) from the relevant authorities.

18. OTHER NON-CURRENT ASSETS

Other non-current assets of the Group comprise software licenses and payments for an urban redevelopment project and a village-in-city redevelopment project.

The software licenses have finite useful lives and are amortized on a straight-line basis over 6 years. As at December 31, 2018, the carrying amount of software licenses is RMB14,545,000 (2017: RMB14,330,000), which are made up of cost of RMB23,484,000 (2017: RMB21,284,000) and accumulated amortization of RMB8,939,000 (2017: RMB6,954,000).

The remaining balance of other non-current assets relates to the payments and costs described as below:

- (a) The Group acquired an urban redevelopment project during the year ended December 31, 2016 through the acquisition of a subsidiary, Shenzhen Dachaoshan, which entered into an agreement with an entity established by the local authority for an urban redevelopment project in Shenzhen. As at the acquisition date, Shenzhen Dachaoshan has made payments to acquire certain non-agricultural ratio and has the exclusive right to seek government approval for the commencement of the urban redevelopment project after achieving the minimal threshold of the non-agricultural ratio stipulated in the agreement. The urban redevelopment project includes several units and is intended to be developed in different phases. Shenzhen Dachaoshan has obtained approvals from the relevant government authorities in relation to the redevelopment of the first unit. The Directors are confident that Shenzhen Dachaoshan will be able to meet the non-agricultural ratio requirement for the rest of the units in the region and approvals from the relevant authorities will ultimately be obtained in the future. The recovery of the carrying amount will be through the returns to be generated from this urban redevelopment project of which the redevelopment right will be granted exclusively to Shenzhen Dachaoshan upon approval. As at December 31, 2018, the carrying amount of this non-current asset is RMB1,067,712,000 (2017: RMB1,039,448,000).
- (b) The Group acquired a village-in-city redevelopment project in the current year through acquisition of a subsidiary, Shijiazhuang Guosha Real Estate Development Co., Ltd. 石家莊國慶房地產開發有限公司 (“Shijiazhuang Guosha”). Shijiazhuang Guosha entered into a collaborative agreement with local government in Shijiazhuang. The local government has the responsibility to provide collective land, while Shijiazhuang Guosha is responsible for financial contribution of construction. As at the acquisition date, Shijiazhuang Guosha has made payments to the project and acquired land use right for one piece of land which was accounted for as properties under development for sale. The remaining balance of advance payment for those land use right and the development right of land are accounted for as other non-current assets.

The Directors are confident that Shijiazhuang Guosha will be able to acquire the land use right for property development. The prepayments will be recovered through return from sale of commodity housings. As at December 31, 2018, the carrying amount of the non-current assets is RMB327,000,000 (2017: nil).

Details of the acquisitions are set out in note 44.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

19. INTERESTS IN JOINT VENTURES

| | At December 31, | |
|--------------------------------------|-----------------|-----------------|
| | 2018 RMB'000 | 2017 RMB'000 |
| Cost of investment in joint ventures | 35,500 | 10,000 |
| Share of post-acquisition losses | (11,125) | (936) |
| | 24,375 | 9,064 |

Details of each of the Group's joint ventures at the end of the reporting period are as follows:

| Name of entity | Place of establishment and operation | Proportion of ownership interest held by the Group | Proportion of voting rights held by the Group | Principal activity |
|--|--------------------------------------|--|---|----------------------|
| | | 2018 | 2017 | |
| Beijing Maorui Properties Co.,Ltd. ("Maorui Zhiye") 北京茂瑞置業有限公司 | PRC | 20% | 20% | Property development |
| Beijing Ruimao Zhiye Co.,Ltd. ("Ruimao Real Estate") 北京瑞茂房地產開發有限公司 | PRC | 25.5% | N/A | Property development |

Note: The Group holds 20% (2017: 20%) of the registered capital of Maorui Zhiye and 25.5% (2017: nil) of the registered capital of Ruimao Real Estate, which is newly established in current year, and the relevant activities of both investees require the unanimous consent of the parties sharing control. Accordingly, both entities are classified as joint ventures of the Group.

Aggregate information of joint ventures that are not individually material

| | Year ended December 31, | |
|--|-------------------------|-----------------|
| | 2018 RMB'000 | 2017 RMB'000 |
| The Group's share of loss and total comprehensive expense | (11,939) | (936) |
| Aggregate carrying amount of the Group's interests in these joint ventures | 24,375 | 9,064 |

20. INTERESTS IN ASSOCIATES

| | At December 31, | |
|----------------------------------|-----------------|-----------------|
| | 2018 RMB'000 | 2017 RMB'000 |
| Cost of investment in associates | 7,000 | 275,260 |
| Share of post-acquisition losses | (6,435) | (6,014) |
| | 565 | 269,246 |

Details of the Group's associates at the end of reporting period are as follow:

| Name of entity | Place of establishment and operation | Proportion of ownership interest by the Group | | Proportion of voting rights held by the Group | | Principal activity |
|---|--------------------------------------|---|------|---|------|----------------------|
| | | 2018 | 2017 | 2018 | 2017 | |
| Wuxi Glory Real Estate Development Co., Ltd. ("Wuxi Glory") (note 45) 無錫國瑞房地產開發有限公司 | PRC | 49% | N/A | 49% | N/A | Property development |
| Beijing Ruida Properties Co., Ltd. ("Ruida Zhiye") 北京銳達置業有限公司 | PRC | 35% | 35% | 35% | 35% | Property development |
| Jiangmen Yinghuiwan Estate Co., Ltd. ("Jiangmen Yinghuiwan") (Note) 江門映暉灣房地產有限公司 | PRC | N/A | 10% | N/A | 20% | Property development |
| Guangdong Hongtai Guotong Estate Co., Ltd. ("Guangdong Hongtai Guotong") (Note) 廣東宏泰國通地產有限公司 | PRC | N/A | 10% | N/A | 33% | Property development |
| Guangdong Guosha Estate Co., Ltd. ("Guangdong Guosha") (Note) 廣東國廈地產有限公司 | PRC | N/A | 10% | N/A | 33% | Property development |

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For the year ended December 31, 2018

20. INTERESTS IN ASSOCIATES (continued)

| Name of entity | Place of establishment and operation | Proportion of ownership interest by the Group | | Proportion of voting rights held by the Group | | Principal activity |
|--|--------------------------------------|---|------|---|------|----------------------|
| | | 2018 | 2017 | 2018 | 2017 | |
| Tianjin Tianfu Rongsheng Real Estate Development Co., Ltd. ("Tianjin Tianfu Rongsheng") (Note) 天津天富融盛房地產開發有限公司 | PRC | N/A | 10% | N/A | 33% | Property development |
| Sanya Jingheng Properties Co., Ltd. ("Sanya Jingheng") (Note) 三亞景恒置業有限公司 | PRC | N/A | 10% | N/A | 33% | Property development |
| Handan Guoxia Real Estate Development Co., Ltd. ("Handan Guoxia") (Note) 邯鄲市國夏房地產開發有限公司 | PRC | N/A | 10% | N/A | 33% | Property development |
| Chongqing Guosha Estate Development Co., Ltd. ("Chongqing Guosha") (Note) 重慶國廈房地產開發有限公司 | PRC | N/A | 10% | N/A | 33% | Property development |

Note:

These entities became subsidiaries of the Group following by completion of the capital injection during the year. For details, please refer to note 44.

Aggregate information of associates that are not individually material

| | Year ended December 31, | |
|--|-------------------------|-----------------|
| | 2018 RMB'000 | 2017 RMB'000 |
| The Group's share of loss and total comprehensive expense | (10,905) | (6,014) |
| Aggregate carrying amount of the Group's interests in these associates | 565 | 269,246 |

21. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Unlisted investments:

– Equity securities (Note)

At December
31, 2018
RMB'000

220,307

Note:

The above unlisted equity securities represent the Group's equity interest in private entities: (1) 1.23% equity interest in Bohai Life Ltd 渤海人壽保險股份有限公司 ("Bohai Life Limited"), a private entity established in the PRC which is principally engaged in insurance business, with a carrying amount of RMB215,307,000, and (2) 10% equity interest in Yongqing Jiyin Rural Bank Co., Ltd 永清吉銀村鎮銀行股份有限公司 ("Yongqing Jiyin Rural Bank"), a private entity established in the PRC which is principally engaged in banking operation, with a carrying amount of RMB5,000,000.

22. AVAILABLE-FOR-SALE INVESTMENTS

At December
31, 2017
RMB'000

Unlisted equity investments, at cost:

Equity securities (Note)

165,192

Note:

The above unlisted equity investments represent investments in unlisted equity securities issued by private entities incorporated in the PRC. Such investments are designated as equity instruments at FVTOCI upon application of IFRS 9 at January 1, 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

23. PREPAID LEASE PAYMENTS

| | At December 31, | |
|--|-----------------|-----------------|
| | 2018 RMB'000 | 2017 RMB'000 |
| Prepaid lease payments | 281,501 | 287,473 |
| Analysed for reporting purposes as: | | |
| Non-current | 275,466 | 281,438 |
| Current (included in trade and other receivables, deposits and prepayments) | 6,035 | 6,035 |
| | 281,501 | 287,473 |

Prepaid lease payments are made for land use right in the PRC.

As at December 31, 2018, the Group had pledged the land use rights of approximately RMB278,637,000 (2017: RMB286,638,000) to secure bank and trust borrowings granted to the Group as set out in note 46.

24. DEFERRED TAXATION

The following are the major deferred tax assets (liabilities) recognized and movements thereon during the current and prior years:

| | Tax losses RMB'000 | Temporary differences on sale deposits received RMB'000 | LAT RMB'000 | Fair value gain on properties RMB'000 | Fair value change on equity instruments at FVTOCI RMB'000 | Revaluation arising from business combination RMB'000 | Others RMB'000 (Note) | Total RMB'000 |
|--|-----------------------|--|----------------|--|--|---|-----------------------------|------------------|
| At January 1, 2017 | 65,306 | 122,433 | 209,618 | (2,219,678) | — | — | 1,612 | (1,820,709) |
| Credited (charged) to profit or loss | 24,855 | (39,674) | 152,060 | (258,313) | — | — | 1,828 | (119,244) |
| Charged to other comprehensive income | — | — | — | (81,237) | — | — | — | (81,237) |
| At December 31, 2017 | 90,161 | 82,759 | 361,678 | (2,559,228) | — | — | 3,440 | (2,021,190) |
| Adjustments (note 2) | — | — | — | — | (16,177) | — | — | (16,177) |
| At January 1, 2018 (restated) | 90,161 | 82,759 | 361,678 | (2,559,228) | (16,177) | — | 3,440 | (2,037,367) |
| Credited (charged) to profit or loss | 55,037 | 68,481 | 25,044 | (311,767) | — | — | (14,174) | (177,379) |
| Credit to other comprehensive income | — | — | — | — | 2,398 | — | — | 2,398 |
| Acquisition of subsidiaries | — | — | — | — | — | (1,117,491) | — | (1,117,491) |
| At December 31, 2018 | 145,198 | 151,240 | 386,722 | (2,870,995) | (13,779) | (1,117,491) | (10,734) | (3,329,839) |

Note: The "others" mainly relates to temporary differences on sales commission, exceeding advertising fee and exceeding donation.

24. DEFERRED TAXATION (continued)

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for the financial reporting purpose:

| | At December 31, | |
|--------------------------|-----------------|-----------------|
| | 2018 RMB'000 | 2017 RMB'000 |
| Deferred tax assets | 510,513 | 404,235 |
| Deferred tax liabilities | (3,840,352) | (2,425,425) |
| | (3,329,839) | (2,021,190) |

No deferred taxation asset has been recognized in respect of the following unutilized tax losses due to the unpredictability of future profit streams, estimated at the end of the reporting period. The unrecognized tax losses will expire in the following years:

| | At December 31, | |
|---|-----------------|-----------------|
| | 2018 RMB'000 | 2017 RMB'000 |
| To be expired on: | | |
| December 31, 2018 | — | 2,178 |
| December 31, 2019 | 55,572 | 55,572 |
| December 31, 2020 | 37,813 | 37,813 |
| December 31, 2021 | 41,436 | 41,436 |
| December 31, 2022 | 73,789 | 80,420 |
| December 31, 2023 | 141,295 | — |
| Total unused tax losses not recognized as deferred tax assets | 349,905 | 217,419 |

25. DEPOSITS PAID FOR ACQUISITION OF LAND

The amounts represent deposits paid for public tenders, auctions or listing-for-bidding of land use rights in the PRC for the purpose of development for sale.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

26. PROPERTIES UNDER DEVELOPMENT FOR SALE

The properties under development for sale are located in the PRC.

As at December 31, 2018, certain of the Group's properties under development for sale with a carrying amount of approximately RMB15,378,746,000 (2017: RMB14,215,345,000) was pledged to secure bank and trust borrowings granted to the Group as set out in note 46.

In the opinion of the Directors, properties under development for sale with carrying amount of approximately RMB24,871,448,000 (2017: RMB11,080,121,000) as at December 31, 2018 are expected to be completed and realized after twelve months from the end of the reporting period.

As at December 31, 2018, the Group was in the process of obtaining the certificates of land use rights of RMB278,164,000 (2017: RMB1,625,970,000) from the relevant authorities.

27. JOINT OPERATION

On September 1, 2009, Glory Xingye (Beijing) Real Estate Co., Ltd 北京國瑞興業地產股份有限公司 ("Original Beijing Glory") entered into an agreement with an independent third party (the "Project Partner") in respect of a joint development project of Qinian Street Rebuild Primary Land Development Project in the PRC (the "Qinian Street Project").

Pursuant to the agreement, Original Beijing Glory and the Project Partner set up an operation committee to exercise joint control and manage the project together. The two parties contribute the funding, share revenue and bear costs equally.

The amount included in the consolidated financial statements arising from the joint operation is as follows:

| | Year ended December 31, | |
|----------------------------|-------------------------|-----------------|
| | 2018 RMB'000 | 2017 RMB'000 |
| Analysis of profit or loss | | |
| Revenue | 156,451 | 75,095 |
| Cost of sales and services | (154,025) | (73,931) |
| Profit before tax | 2,426 | 1,164 |

The details of the assets arising from the joint operation are set out in note 30 (2017: note 32).

28. PROPERTIES HELD FOR SALE

The Group's properties held for sale are stated at the lower of cost and net realizable value and situated in the PRC. In the opinion of the Directors, properties held for sale of approximately RMB849,684,000 (2017: RMB254,594,000) as at December 31, 2018 are expected to be sold after twelve months from the end of the reporting period.

As at December 31, 2018, properties held for sale of approximately RMB473,279,000 (2017: RMB1,203,340,000) were pledged to secure bank and trust borrowings granted to the Group as set out in note 46.

29. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

Pursuant to the lease agreements, lease payment is required to be settled in advance with no credit period being granted to the tenants. In respect of property sales, a credit period of six to twelve months may be granted to specific customers on a case-by-case basis.

| | At December 31, | |
|---|-----------------|-----------------|
| | 2018 RMB'000 | 2017 RMB'000 |
| Trade receivables | | |
| – Receivables for property sales | 385,494 | 470,182 |
| – Others | 3,188 | 668 |
| Lease receivables | 78,052 | 12,571 |
| | 466,734 | 483,421 |
| Less: Allowance for credit losses | | |
| – Lease receivables | (3,027) | (3,027) |
| | 463,707 | 480,394 |
| Advances to contractors and suppliers | 586,337 | 274,537 |
| Other receivables from independent third parties (Note) | 17,261 | 17,261 |
| Other receivables and prepayments, net of allowance | 336,227 | 183,746 |
| Prepaid lease payment - current portion (note 23) | 6,035 | 6,035 |
| Deposits | 886,913 | 120,973 |
| Total trade and other receivables | 2,296,480 | 1,082,946 |

Note: Other receivables from independent third parties are of non-trade nature, unsecured, interest-free and repayable on demand.

As at December 31, 2018 and January 1, 2018, trade receivables from contracts with customers amounted to RMB388,682,000 and RMB407,315,000 respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

29. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (continued)

The following is an aging analysis of trade and lease receivables net of allowance for credit losses presented based on the date of recognition of revenue at the end of the reporting period:

| | At December 31, | |
|-----------------|-----------------|-----------------|
| | 2018 RMB'000 | 2017 RMB'000 |
| 0 to 60 days | 244,145 | 281,666 |
| 61 to 180 days | 65,626 | 66,121 |
| 181 to 365 days | 83,568 | 59,737 |
| 1 to 2 years | 61,359 | 21,715 |
| Over 2 years | 9,009 | 51,155 |
| | 463,707 | 480,394 |

As at December 31, 2018, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB74,298,000 which are past due as at the reporting date. Out of the past due balances, RMB10,532,000 has been past due over 90 days and is not considered as default based on the Group's historical default rates of these counterparties taking into consideration reasonable and supportable forward-looking information that is available without undue cost or effort.

Upon the application of IFRS 9 on January 1, 2018, the Group applies simplified approach to provide lifetime ECL for trade receivables arising from contracts with customers. The loss allowance of these trade receivable as at December 31, 2018 was insignificant.

As at December 31, 2017, included in the Group's trade receivable balance are debtors with aggregate carrying amount of RMB59,743,000 which are past due as at the reporting date for which the Group has not provided for impairment loss. The following is an aging analysis of receivables based on due date.

| | At December 31, 2017 RMB'000 |
|------------------|---------------------------------------|
| Less than 1 year | 25,756 |
| 1 to 2 years | 27,669 |
| Over 2 years | 6,318 |
| | 59,743 |

29. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (continued)

In determining the recoverability of trade receivables, the Group considers any change in the credit quality of the trade receivables from the date credit was initially granted up to the end of the reporting period. As at December 31, 2017, all receivables that are neither past due nor impaired are due from customers with good settlement history.

Movement in the allowance for doubtful debts on trade receivables are set out as follows:

| | Year ended December 31, 2017 RMB'000 |
|--|---|
| Balance at the beginning and end of the year | 3,027 |

Included in allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of RMB3,027,000 which are due from debtors under financial difficulties. In addition, the Group assessed impairment on a collective basis. No further allowance for doubtful debts was recognized as at December 31, 2017.

30. CONTRACT ASSETS

| | At December 31, 2018 RMB'000 | At January 1, 2018* RMB'000 |
|---------------------------------------|---------------------------------------|--------------------------------------|
| Construction and development services | 1,176,365 | 1,191,139 |
| Property sales | 47,205 | 63,535 |
| | 1,223,570 | 1,254,674 |

* The amounts in this column are after the adjustments from the application of IFRS 15.

The contract assets primarily relate to the Group's right to consideration for work completed and not billed because the rights are conditioned on the Group's future performance. The contract assets are transferred to trade receivables when the rights become unconditional.

All Contract assets are expected to be settled within the Group's normal operating cycle, and are classified as current.

Details of payment terms of construction and development services and property sales contracts are set out in note 5.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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31. CONTRACT COSTS

| | At December 31, 2018 RMB'000 |
|---------------------------------------|---------------------------------------|
| Incremental costs to obtain contracts | 36,321 |

Note: Contract costs capitalized as at December 31, 2018 relate to the incremental sales commissions paid to property agents whose selling activities resulted in customers entering into sale and purchase agreements for the Group's properties which are still under construction at the reporting date. Contract costs are recognized as part of cost of sales in the consolidated statement of profit or loss in the period in which revenue from the related property sales is recognized. There was no impairment recognized during the year.

The Group applies the practical expedient and recognizes the incremental costs of obtaining contracts relating to the sale of completed properties and services as an expense when incurred if the amortization period of the assets that the Group otherwise would have recognized is one year or less.

32. AMOUNTS DUE FROM CUSTOMERS FOR CONTRACT WORK

| | At December 31, 2017 RMB'000 |
|---|---------------------------------------|
| Contract in progress | |
| Construction costs incurred plus recognized profits | 1,991,139 |
| Less: progress billings | (800,000) |
| | <u>1,191,139</u> |

Contract in progress represents the Group's interest in the Qinian Street Project, which is recognized through a joint operation as detailed in note 27.

Amounts due from customers for contract work were reclassified to contract assets upon application of IFRS 15 on January 1, 2018, details please refer to note 30.

33. RESTRICTED BANK DEPOSITS

| | At December 31, | |
|---|-----------------|-----------------|
| | 2018 RMB'000 | 2017 RMB'000 |
| Deposits pledged for banking facilities (Note (a)) | 11 | 224,995 |
| Restricted bank deposits (Note (b)) | 726,342 | 303,312 |
| Deposits pledged for mortgage loans granted to customers (Note (c)) | 215,778 | 198,174 |
| | 942,131 | 726,481 |
| Analysed for reporting purposes as: | | |
| Non-current (Note (d)) | 462,980 | 105,720 |
| Current | 479,151 | 620,761 |
| | 942,131 | 726,481 |

Notes:

- (a) The amounts represent bank deposits denominated in RMB pledged to banks as security for certain banking facilities granted to the Group and disclosed in note 46.
- (b) The amounts represent bank deposits for construction of pre-sale properties. In accordance with relevant government requirements, certain property development subsidiaries of the Group are required to place in designated bank accounts certain amount of pre-sale proceeds as guarantee deposits for the construction of the relevant properties. The deposits can only be used for payments for construction costs of the relevant properties when approval from related government authority is obtained. Such bank deposits will be released after the completion of construction of the related properties.
- (c) The amounts represent bank deposits pledged to banks as security for certain mortgage loans granted by the banks to the Group's customers. The pledged bank deposits will be released upon receiving the building ownership certificate of the respective properties by the banks from the customers as security of the mortgage loans granted.
- (d) Deposits pledged as security for mortgage loans of the Group's customers and restricted bank deposits that are not expected to be released within twelve months after the end of the reporting period are classified as non-current assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

33. RESTRICTED BANK DEPOSITS (continued)

For the year ended December 31, 2018, the Group performed impairment assessment on restricted bank deposits and concluded that the probability of defaults of the counterparty banks are insignificant and accordingly, no allowance for credit losses is provided.

The bank deposits carry prevailing market interest rates as follows:

| | At December 31, | |
|----------------------------------|-----------------|-------|
| | 2018 | 2017 |
| Range of interest rate per annum | 0.3%-3.25% | 0.30% |

34. BANK BALANCES AND CASH

| | At December 31, | |
|------------------------|-----------------|-----------|
| | 2018 | 2017 |
| | RMB'000 | RMB'000 |
| Bank balances and cash | 1,030,143 | 1,591,506 |

Cash and cash equivalents comprise bank balances and cash held by the Group.

The bank balances carry interest rates as follows:

| | At December 31, | |
|----------------------------------|-----------------|-------------|
| | 2018 | 2017 |
| Range of interest rate per annum | 0.30%-3.8% | 0.30%~0.38% |

Bank balances and cash as at December 31, 2018 were denominated in RMB and HK\$, and RMB is not a freely convertible currency in the international market. The exchange rate of RMB is determined by the government of the PRC and the remittance of these funds out of the PRC is subject to exchange restrictions imposed by the government of the PRC.

For the year ended December 31, 2018, the Group performed impairment assessment on bank balances and concluded that the probability of defaults of the counterparty banks are insignificant and accordingly, no allowance for credit losses is provided.

35. TRADE AND OTHER PAYABLES

| | At December 31, | |
|---|------------------------|-----------|
| | 2018 | 2017 |
| | RMB'000 | RMB'000 |
| Trade payables | 4,294,422 | 4,099,193 |
| Deposits received | 450,352 | 431,967 |
| Rental received in advance | 58,650 | 49,361 |
| Payable for acquisition of partial interest in a subsidiary | 12,000 | — |
| Accrued payroll | 54,460 | 56,076 |
| Business and other tax payable | 333,240 | 386,111 |
| Other payables and accruals | 1,510,203 | 637,398 |
| Dividends | 150,000 | 15,000 |
| | 6,863,327 | 5,675,106 |
| Analyzed for reporting purposes as: | | |
| Non-current (Note) | 106,312 | 89,393 |
| Current | 6,757,015 | 5,585,713 |
| | 6,863,327 | 5,675,106 |

Note:

Pursuant to the relevant agreements, rental deposits of approximately RMB106,312,000 (2017: RMB89,393,000) as at December 31, 2018 are to be settled after twelve months from the end of the reporting period and is therefore classified as non-current liabilities.

Trade payables comprise construction costs payable and other project-related expenses payable. The average credit period of trade payable is 180 days.

The following is an aging analysis of trade payables based on invoice date at the end of the reporting period:

| | At December 31, | |
|--------------|------------------------|-----------|
| | 2018 | 2017 |
| | RMB'000 | RMB'000 |
| 0 to 60 days | 2,071,849 | 2,196,999 |
| 61-365 days | 728,126 | 458,745 |
| 1-2 years | 520,522 | 975,541 |
| Over 2 years | 973,925 | 467,908 |
| | 4,294,422 | 4,099,193 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

36. CONTRACT LIABILITIES

| | At December 31, 2018 RMB'000 | At January 1, 2018* RMB'000 |
|----------------|---------------------------------------|--------------------------------------|
| Property sales | 11,208,252 [^] | 3,380,371 |

* The amounts in this column are after the adjustments from the application of IFRS 15.

[^] Included in the contract liabilities was an amount of RMB1,513,113,000 of which the Group has entered into directional agreement with the customers as at December 31, 2018.

All contract liabilities are expected to be settled within the Group's normal operating cycle, and are classified as current.

The following table shows how much of the revenue recognized in the current year relates to carried-forward contract liabilities.

| | Sales of properties RMB'000 |
|---|-----------------------------------|
| Revenue recognized that was included in the contract liabilities balance at the beginning of the year | 780,011 |

The deposits and advance payment received were recognized as contract liabilities throughout the property construction period until the customer obtains control of the completed property.

37. TAX PAYABLE

| | At December 31, | |
|--------------------|------------------|------------------|
| | 2018 RMB'000 | 2017 RMB'000 |
| LAT payable | 1,666,300 | 1,489,095 |
| Income tax payable | 1,207,775 | 1,003,091 |
| | 2,874,075 | 2,492,186 |

38. BANK AND TRUST BORROWINGS

| | At December 31, | |
|--|--------------------|---------------------|
| | 2018 RMB'000 | 2017 RMB'000 |
| Bank borrowings, secured | 13,968,042 | 19,517,064 |
| Trust borrowings, secured | 9,330,942 | 4,710,000 |
| | 23,298,984 | 24,227,064 |
| The borrowings are due to be repayable: | | |
| On demand and within one year | 9,037,963 | 11,625,399 |
| More than one year, but not exceeding two years | 4,645,161 | 6,427,891 |
| More than two years, but not exceeding five years | 3,167,987 | 3,185,080 |
| More than five years | 6,447,873 | 2,988,694 |
| | 23,298,984 | 24,227,064 |
| Less: Amount due within one year shown under current liabilities | (9,037,963) | (11,625,399) |
| Amount shown under non-current liabilities | 14,261,021 | 12,601,665 |

The Group's bank and trust borrowings are all denominated in RMB. Details of assets that have been pledged to secure bank and trust borrowings are set out in note 46.

Borrowings of approximately RMB8,770,342,000 (2017: RMB8,399,086,000), bearing interest at variable rate ranging from 4.75% to 8.50% (2017: 2.58% to 6.50%) per annum as at December 31, 2018 exposed the Group to cash flow interest rate risk. The remaining borrowings, bearing interest at fixed rate, ranging from 4.75% to 12.00% (2017: 5.90% to 8.75%) per annum as at December 31, 2018, exposed the Group to fair value interest rate risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

38. BANK AND TRUST BORROWINGS (continued)

During the year ended December 31, 2017, loans amounting to RMB100,000,000 breached certain loan covenants of the bank borrowings, which are primarily related to the debt-equity ratio, and were under renegotiation between the Group and relevant bankers. These negotiations have not been concluded and waivers from the lenders for their rights to demand immediate payment have not been obtained as at the end of the reporting period. Accordingly, the loans are repayable on demand and have been classified as current liabilities as at December 31, 2017. These loans were fully settled in February 2019.

In July 2018, Suzhou Glory Real Estate Co., Ltd. 蘇州國瑞地產有限公司 (“Suzhou Glory”) entered into a trust loan agreement with China Minsheng Trust Co., Ltd 中國民生信托有限公司 (“Mingsheng Trust”), in which the total credit facility granted is RMB1,500,000,000 bearing interest at 10.5% per annum. The loan is secured by land use rights in properties under development of Suzhou Glory and secured by 15% equity interest of Suzhou Glory. Besides the security, the loan is also guaranteed by Garden Group, Longhu Huamu and Mr. Zhang Zhangsun. Suzhou Glory has drawn down a loan of RMB1,357,500,000 in 2018. As at December 31, 2018, the loan balance of RMB1,346,889,000 is measured at amortized cost using the effective interest method. The loan will be repayable from July 2019 to November 2019.

In June 2018, Beijing Glory Real Estate (Holding) Co., Ltd 北京國瑞興業房地產控股有限公司 (“New Beijing Glory”) and Suzhou Glory, subsidiaries of the Company, entered into a triparty agreement with Mingsheng Trust. Pursuant to the agreement, the loan of RMB42,500,000 was provided by Mingsheng Trust as capital injection to Suzhou Glory, a subsidiary of New Beijing Glory. Upon receipt of the cash contribution, New Beijing Glory and Mingsheng Trust held 15.00% and 85.00% interests in Suzhou Glory, respectively.

In the opinion of the Directors, the loan is to finance the construction of the properties under development of Suzhou Glory; and the relevant investment agreement required: (i) New Beijing Glory is obliged to repurchased remaining 85.00% shares of Suzhou Glory transferred to Mingsheng Trust with a cash consideration of RMB42,500,000 on 13 July 2019; (ii) Mingsheng Trust does not have any influence over Suzhou Glory or undertake any risk of investment, but only entitled to a fixed interest rate at 10.50% per annum which should be paid quarterly during the 12 month of investment period. In the opinion of the Directors, the arrangement is in substance a financing arrangement from Mingsheng Trust. The Group classified the above loan as a financial liability, and continues to consolidate all results as if Suzhou Glory is a wholly-owned subsidiary of the Group. As at December 31, 2018, the loan balance of RMB42,243,000 is measured at amortized cost using the effective interest method.

38. BANK AND TRUST BORROWINGS (continued)

Set out below were the details of the secured entrusted bank borrowings and trust borrowings:

| Borrowers | Lenders | Withdrawn amount | | Loan Period | Interest Rate | Carrying amount | | Trustee |
|---|---|---------------------------------|---------------------------------|-----------------------------------|---------------|---------------------------------|---------------------------------|--|
| | | At | At | | | At | At | |
| | | December 31, 2018 RMB'000 | December 31, 2017 RMB'000 | | | December 31, 2018 RMB'000 | December 31, 2017 RMB'000 | |
| - Entrusted bank borrowings | | | | | | | | |
| Original Beijing Glory | Bank of Beijing Co., Ltd | 1,200,000 | 1,200,000 | October 2017 to October 2032 | 6.05 | 700,000 | 1,200,000 | Beijing Branch of Bank of Beijing Co., Ltd |
| Original Beijing Glory | Shanghai Haitong Securities Management Co., Ltd | 1,400,000 | 1,400,000 | October 2016 to October 2018 | 7.00 | — | 1,400,000 | Ziyang Minsheng Rural Banking |
| Glory Xingye (Beijing) Investment Co., Ltd 國瑞興業 (北京)投資有限公司("Glory Investment") | Bosera Capital Management Co., Ltd | 1,880,000 | 1,880,000 | January 2017 to January 2019 | 6.50 | 180,000 | 1,880,000 | China Bohai Bank Beijing Branch |
| Beijing Wenhushengda Real Estate Development Co., Ltd 北京文華盛達 房地產開發有限公司 ("Beijing Wenhushengda") | Bosera Capital Management Co., Ltd | 1,388,000 | 1,388,000 | December 2015 to December 2018 | 6.50 | — | 1,350,478 | China Bohai Bank Beijing Branch |
| Foshan Guohua Properties Co., Ltd. 佛山市國華置業有限公司 ("Foshan Guohua") | Essence Securities Co., Ltd | 1,650,000 | 1,650,000 | May 2017 to May 2020 | 7.15 | 1,650,000 | 1,650,000 | Bank of Tianjin Beijing Branch |
| Foshan Glory Southern Real Estate Development Co., Ltd 佛山市國瑞南方 房地產開發有限公司 ("Foshan Glory Southern") | Shanghai Zhihua Investment Center (Limited Partnership) | 670,000 | 670,000 | July 2016 to July 2018 | 5.90 | — | 670,000 | Bank of China Foshan Branch |
| Suzhou Glory | Southern Capital Management Co., Ltd | 2,500,000 | 2,500,000 | May 2016 to May 2018 | 8.00 | — | 2,250,000 | Bank of Jiangsu Suzhou Wuzhong Branch |
| Subtotal | | 10,688,000 | 10,688,000 | | | 2,530,000 | 10,400,478 | |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

38. BANK AND TRUST BORROWINGS (continued)

| Borrowers | Lenders | Withdrawn amount | | Loan Period | Interest Rate | Carrying amount | | Trustee |
|---|--|---------------------------------|---------------------------------|----------------------------------|---------------|---------------------------------|---------------------------------|---------|
| | | At | At | | | At | At | |
| | | December 31, 2018 RMB'000 | December 31, 2017 RMB'000 | | | December 31, 2018 RMB'000 | December 31, 2017 RMB'000 | |
| - Trust borrowings | | | | | | | | |
| New Beijing Glory | Minsheng Trust | 1,700,000 | 1,000,000 | February 2017 to October 2018 | 7.00 - 9.80 | — | 1,000,000 | — |
| Suzhou Glory | Jiangsu International Trust Co., Ltd. | 400,000 | 400,000 | April 2017 to July 2018 | 6.50 | — | 350,000 | — |
| Suzhou Glory | Minsheng Trust | 1,357,500 | — | July 2018 to November 2019 | 10.50 | 1,346,889 | — | — |
| Suzhou Glory | Minsheng Trust | 42,500 | — | July 2018 to July 2019 | 10.50 | 42,243 | — | — |
| Beijing Deheng Real Estate Development Co., Ltd北京國瑞德恒 房地產開發有限公司("Beijing Deheng") | Chongqing International Trust Inc. | 2,280,000 | 2,280,000 | July 2017 to July 2019 | 8.00 | 2,280,000 | 2,280,000 | — |
| Langfang Guoxing Real Estate Development Co., Ltd廊坊國興房地產 開發有限公司("Langfang Guoxing") | China Credit Trust Co., Ltd. | 1,080,000 | 1,080,000 | August 2017 to August 2019 | 8.25 - 8.75 | 780,000 | 1,080,000 | — |
| Original Beijing Glory | China Huarong Asset Management Co., Ltd | 1,038,810 | — | January 2018 to December 2020 | 12.00 | 1,038,810 | — | — |
| Original Beijing Glory | Western Trust Co., Ltd | 4,110,000 | — | October 2018 to November 2036 | 8.48 | 3,843,000 | — | — |
| Subtotal | | 12,008,810 | 4,760,000 | | | 9,330,942 | 4,710,000 | |
| Total | | 22,696,810 | 15,448,000 | | | 11,860,942 | 15,110,478 | |

39. CORPORATE BONDS

Corporate bonds issued in 2015 (the “2015 Corporate Bonds”)

On November 11, 2015, Garden Group, a wholly-owned subsidiary of the Company, has issued its first tranche of domestic corporate bonds to the public in the PRC (“First Tranche Issue”) with a principal amount of RMB2,000,000,000, bearing interest at the coupon rate of 7.25% per annum, payable annually, and has a term of 5 years. On December 22, 2015, Garden Group has issued the second tranche of domestic corporate bonds to the public in the PRC (“Second Tranche Issue”) with a principal amount of RMB1,000,000,000, bearing interest at the coupon rate of 7.47% per annum, payable annually, and has a term of 5 years.

According to the terms and conditions of the 2015 Corporate Bonds, Garden Group has the right to adjust and not adjust the coupon rate for the fourth and fifth year at the end of the third year, by giving a 30-day notice to the bondholder before November 10 and December 21, 2018 respectively. At the same time, the bondholder may at its option require Garden Group to redeem the bond at a redemption price equal to 100% of the principal plus accrued interest to such redemption date. The remaining bond will be subject to the adjusted interest rate until the maturity date. The effective interest rate of the First Tranche Issue and Second Tranche Issue of 2015 Corporate Bonds is approximately 7.61% and 7.64% per annum after the adjustment for transaction costs.

In 2018, principal amount of First Tranche Issue and Second Tranche Issue amounting to RMB1,945,650,000 and RMB999,680,000 respectively were redeemed by the bondholders. The maturity dates of the remaining 2015 Corporate Bonds are November 10 and December 21, 2020 respectively.

The carrying amount of 2015 Corporate Bonds is approximately RMB54,670,000 (December 31, 2017: RMB2,992,645,000) and the corresponding interest in accrual is approximately RMB551,000 (December 31, 2017: RMB22,246,000) as at December 31, 2018.

Corporate bonds issued in 2016 (the “2016 Corporate Bonds”)

On September 22, 2016, Garden Group issued its first tranche of domestic corporate bonds through non-public offering in the PRC (“First Tranche Non-public Issue”) with a principal amount of RMB1,000,000,000, bearing interest at the coupon rate of 5.3% per annum, payable annually, and has a term of 5 years. The 2016 Corporate Bonds are secured by certain investment properties of the Group.

According to the terms and conditions of the 2016 Corporate Bonds, Garden Group has the right to adjust and not adjust the coupon rate for the fourth and fifth year at the end of the third year, by giving a 30-day notice to the bondholder before September 21, 2019. At the same time, the bondholder may at its option require Garden Group to redeem the bond at a redemption price equal to 100% of the principal plus accrued interest to such redemption date. The remaining bond will be subject to the adjusted interest rate until the maturity date. The effective interest rate of the 2016 Corporate Bonds is approximately 5.47% per annum after the adjustment for transaction costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

39. CORPORATE BONDS (continued)

Corporate bonds issued in 2016 (the “2016 Corporate Bonds”) (continued)

The carrying amounts of 2016 Corporate Bonds is approximately RMB998,765,000 (December 31, 2017: RMB997,006,000) and the corresponding interest in accrual is approximately RMB13,504,000 (December 31, 2017: RMB13,156,000) as at December 31, 2018.

2016 Corporate Bonds are subject to the redemption at the option of the bondholders in 2019 and have been classified as current liabilities as at December 31, 2018.

40. SENIOR NOTES

2017 Senior Notes

On March 21, 2017, the Company issued senior notes with an aggregate nominal value of United States dollars (“US\$”) 300,000,000 (“2017 Senior Notes”) at face value. The 2017 Senior Notes, bearing interest at 7.00% per annum, payable semi-annually from September 21, 2017 will mature on March 21, 2020. The effective interest rate is approximately 7.82% per annum after the adjustment for transaction costs. The 2017 Senior Notes are listed on the Stock Exchange.

According to the terms and conditions of the 2017 Senior Notes, the Company may at its option (“early redemption options”) to redeem the 2017 Senior Notes in the following circumstances: (1) On 21 March, 2019, the Company may redeem the 2017 Senior Notes, in whole and not in part, at the redemption price equal to 100% of the principal amount of the 2017 Senior Notes redeemed plus accrued interest, if any, on the 2017 Senior Notes redeemed, to (but not including) the date of redemption. (2) At any time prior to March 21, 2019, the Company may redeem the 2017 Senior Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the redeemed 2017 Senior Notes plus the applicable premium as of, and accrued interest, if any, to (but not including) the redemption date. Applicable premium means with respect to 2017 Senior Notes at any redemption date, the greater of (i) 1.00% of the principal amount of such notes and (ii) the excess of (A) the present value at such redemption date of the principal amount of such notes on March 21, 2019, plus all required remaining scheduled interest payments due on such notes through March 21, 2019 (but excluding accrued and unpaid interest to the redemption date), computed using a discount rate equal to the adjusted treasury rate plus 100 basis points, over (B) the principal amount of such notes on such redemption date. (3) At any time and from time to time prior to March 21, 2020, the Company may redeem up to 35% of the aggregate principal amount of the 2017 Senior Notes with the net cash proceeds of one or more sales of common stock of the Company in an equity offering at a redemption price of 107.00% of the principal amount of the 2017 Senior Notes redeemed, plus accrued interest, if any, to (but not including) the redemption date, provided that at least 65% of the aggregate principal amount of the 2017 Senior Notes originally issued on the original issue date remains outstanding after such redemption and any such redemption takes place within 60 days after the closing of the related equity offering.

The holders of 2017 Senior Notes have the right, at their option, to require the Company to repurchase all of their 2017 Senior Notes in cash, or any portion of the principal thereof that is equal to US\$200,000 or an integral multiple of US\$1,000 in excess thereof, on March 21, 2019 at the repurchase price equal to 100% of the principal amount of 2017 Senior Notes to be repurchased, plus accrued interest to, but excluding, March 21, 2019.

40. SENIOR NOTES (continued)

2017 Senior Notes (continued)

The Directors consider that the fair value of the early redemption options was insignificant on initial recognition and at December 31, 2017 and 2018.

The carrying amount of 2017 Senior Notes is approximately RMB2,056,004,000 (December 31, 2017: RMB1,940,948,000) and the corresponding interest in accrual is approximately RMB39,557,000 (December 31, 2017: RMB37,660,000) as at December 31, 2018. The fair value of 2017 Senior Notes at December 31, 2018 is approximately RMB1,798,254,000 (2017: RMB1,941,461,000) based on quoted market price and classified as level 1 of fair value hierarchy.

2017 Senior Notes are subject to the redemption option of the noteholders on March 21, 2019. Accordingly, it was classified as current liabilities as at December 31, 2018.

2018 First Tranche Senior Notes

On March 2, 2018, the Company issued senior notes with an aggregate nominal value of US\$250,000,000 ("2018 First Tranche Senior Notes") at face value. 2018 First Tranche Senior Notes bearing interest at 10.20% per annum, payable semi-annually from September 2, 2018, will mature on March 1, 2019. The effective interest rate is approximately 11.94% per annum after the adjustment for transaction costs. 2018 First Tranche Senior Notes are listed on the Stock Exchange.

2018 First Tranche Senior Notes may be redeemed in the following circumstances:

- (1) At any time prior to March 1, 2019, the Company may at its option to redeem the 2018 First Tranche Senior Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of 2018 First Tranche Senior Notes plus the applicable premium as of, and accrued and interest, if any, to (but not including) the redemption date.
- (2) At any time and from time to time prior to March 1, 2019, the Company may redeem up to 35% of the aggregate principal amount of 2018 First Tranche Senior Notes with the net cash proceeds of one or more sales of common stock of the Company in an equity offering at a redemption price of 110.2% of the principal amount of 2018 First Tranche Senior Notes redeemed, plus accrued interest, if any, to (but not including) the redemption date, provided that at least 65% of the aggregate principal amount of 2018 First Tranche Senior Notes originally issued on the original issue date remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related equity offering.

The Company will give not less than 30 days notice of any redemption.

The Directors consider that the fair value of the above early redemption options was insignificant on initial recognition and as at December 31, 2018.

The carrying amount of 2018 First Tranche Senior Notes is approximately RMB1,712,360,000 and the corresponding interest in accrual is approximately RMB57,069,000 as at December 31, 2018. The fair value of 2018 First Tranche Senior Notes as at December 31, 2018 is approximately RMB1,646,087,000 based on quoted market price and classified as level 1 of fair value hierarchy.

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For the year ended December 31, 2018

40. SENIOR NOTES (continued)

2018 Second Tranche Senior Notes

On June 7, 2018, the Company issued senior notes with an aggregate nominal value of US\$100,000,000 (“2018 Second Tranche Senior Notes”) at face value. 2018 Second Tranche Senior Notes bearing interest at 10.00% per annum payable semi-annually from December 7, 2018, will mature on June 7, 2020. The effective interest rate is approximately 11.03% per annum after the adjustment for transaction costs. 2018 Second Tranche Senior Notes are listed on the Stock Exchange.

2018 Second Tranche Senior Notes may be redeemed in the following circumstances:

- (1) At any time prior to June 7, 2020, the Company may at its option to redeem 2018 Second Tranche Senior Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of 2018 Second Tranche Senior Notes plus the applicable premium as of, and accrued interest, if any, to (but not including) the redemption date.
- (2) At any time and from time to time prior to June 7, 2020, the Company may redeem up to 35% of the aggregate principal amount of 2018 Second Tranche Senior Notes with the net cash proceeds of one or more sales of common stock of the Company in an equity offering at a redemption price of 110.0% of the principal amount of 2018 Second Tranche Senior Notes redeemed, plus accrued interest, if any, to (but not including) the redemption date, provided that at least 65% of the aggregate principal amount of 2018 Second Tranche Senior Notes originally issued on the original issue date remains outstanding after such redemption and any such redemption takes place within 60 days after the closing of the related equity offering.

The Company will give not less than 30 days notice of any redemption.

The Directors consider that the fair value of the above early redemption options was insignificant on initial recognition and as at December 31, 2018.

The carrying amount of 2018 Second Tranche Senior Notes is approximately RMB677,419,000 and the corresponding interest in accrual is approximately RMB4,312,000 as at December 31, 2018. The fair value of 2018 Second Tranche Senior Notes as at December 31, 2018 is approximately RMB565,610,000 based on quoted market price and classified as level 1 of fair value hierarchy.

41. SHARE CAPITAL

| | Number of shares | Share capital HK\$ | Equivalent to RMB'000 |
|---|------------------|-----------------------|--------------------------|
| Ordinary shares of HK\$0.001 each | | | |
| Authorized: | | | |
| At January 1, 2017, December 31, 2017 and 2018 | 10,000,000,000 | 10,000,000 | |
| Issued and fully paid: | | | |
| At January 1, 2017 | 4,436,994,315 | 4,436,994 | 3,513 |
| Exercise of share options (note 43) | 6,352,671 | 6,353 | 6 |
| At December 31, 2017 | 4,443,346,986 | 4,443,347 | 3,519 |
| Exercise of share options (note 43) | 1,071,000 | 1,071 | 1 |
| At December 31, 2018 | 4,444,417,986 | 4,444,418 | 3,520 |

During the year ended December 31, 2018, share options to subscribe for 1,071,000 (2017: 6,352,671) ordinary shares with par value of HK\$0.001 each were exercised at HK\$1.428 (2017: HK\$1.428) per share.

42. RETIREMENT BENEFIT PLANS

According to the relevant laws and regulations in the PRC, the Company's PRC subsidiaries are required to participate in a defined contribution retirement scheme administrated by the local municipal government. The group entities in the PRC contribute funds which are calculated on a certain percentage range from 12% to 20% of the average employee salary as agreed by local municipal government to the scheme to fund the retirement benefits of the employees. The principal obligation of the Group with respect to the retirement benefit scheme is to make the required contributions under the scheme. The total cost charged to profit or loss for the year ended December 31, 2018 amounted to RMB24,319,000 (2017: RMB24,280,000), represent contributions paid or payable to the scheme by the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

43. SHARE-BASED PAYMENT TRANSACTIONS

i. Share award scheme

Pursuant to the share award scheme adopted by the Company on June 5, 2014 (the “Share Award Scheme”), a total of four employees were awarded in aggregate 33,617,700 shares of the Company on June 16, 2014. The awarded shares will vest in three equal tranches on the first, second and third anniversary of the date on which the Company’s shares are listed on the Stock Exchange (the “Listing Date”), respectively. On July 7, 2017, all shares had been vested to the employees.

The Group recognized the expense of RMB2,841,000 for the year ended December 31, 2017 in relation to the awarded shares.

The following table discloses movements of the awarded shares during the prior year:

| | Outstanding at January 1, 2017 | Vested during the year | Outstanding at December 31, 2017 |
|----------------|-----------------------------------|---------------------------|--|
| Awarded shares | 11,205,908 | (11,205,908) | — |

ii. Share Option Scheme

Pre-IPO Share Option Scheme

Pursuant to the pre-IPO share option scheme adopted by the Company on June 5, 2014 (the “Pre-IPO Share Option Scheme”), the Company granted to 54 grantees options to subscribe for an aggregate of 67,076,800 shares of the Company on June 16, 2014 (the “Pre-IPO Share Option”).

All options under the Pre-IPO Share Option Scheme were granted on June 16, 2014. No additional performance target or condition applies to the outstanding options granted under the Pre-IPO Share Option Scheme. The exercise price for any option granted under the Pre-IPO Share Option Scheme shall be 60% of the offer price. All share options will be expired after 7 years since the grant date.

The vesting period of the Pre-IPO Share Option is as follows:

33.33%: from the date of grant to July 7, 2015

33.33%: from the date of grant to July 7, 2016

33.34%: from the date of grant to July 7, 2017

43. SHARE-BASED PAYMENT TRANSACTIONS (continued)**ii. Share Option Scheme (continued)****Pre-IPO Share Option Scheme (continued)**

The following table discloses movements of the Company's share options held by employees and directors during the year ended December 31, 2018:

| | Outstanding at January 1, 2018 | Exercised during the year | Lapsed during the year (Note) | Outstanding at December 31, 2018 |
|--|--------------------------------------|---------------------------------|--|--|
| Pre-IPO Share Option | | | | |
| – Directors | 10,500,000 | — | — | 10,500,000 |
| – Other staff | 43,813,814 | (1,071,000) | (150,010) | 42,592,804 |
| | 54,313,814 | (1,071,000) | (150,010) | 53,092,804 |
| Exercisable at the end of the year | | | | 53,092,804 |
| Weighted average exercise price (HK\$) | 1.428 | 1.428 | 1.428 | 1.428 |

| | Outstanding at January 1, 2017 | Exercised during the year | Forfeited during the year (Note) | Outstanding at December 31, 2017 |
|--|--------------------------------------|---------------------------------|---|--|
| Pre-IPO Share Option | | | | |
| – Directors | 10,500,000 | — | — | 10,500,000 |
| – Other staff | 50,416,483 | (6,352,671) | (249,998) | 43,813,814 |
| | 60,916,483 | (6,352,671) | (249,998) | 54,313,814 |
| Exercisable at the end of the year | | | | 54,313,814 |
| Weighted average exercise price (HK\$) | 1.428 | 1.428 | 1.428 | 1.428 |

Note: Certain share options granted under Pre-IPO Share Option Scheme were lapsed or forfeited during the years ended December 31, 2018 and 2017 because of the resignation of the employees.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

43. SHARE-BASED PAYMENT TRANSACTIONS (continued)

ii. Share Option Scheme (continued)

Pre-IPO Share Option Scheme (continued)

In respect of the share options exercised during the year, the weighted average share price at the dates of exercise is HK\$2.22 (2017: HK\$2.54) per share.

The Group recognized the total expense of RMB2,365,000 for the year ended December 31, 2017 in relation to share options granted by the Company.

44. ACQUISITION OF SUBSIDIARIES

For the year ended December 31, 2018

Acquisition of businesses

(i) Seven real estate project companies

On August 31, 2017, Garden Group, Heshan Tengyue Property Development Co., Ltd. 鶴山市騰悅房地產開發有限公司("Heshan Tengyue"), a company indirectly controlled by Mr. Zhang Zhangqiao (younger brother of Mr. Zhang Zhangsun, executive director and controlling shareholder of the Company), Great Strong International Co., Ltd. 強旺國際有限公司, original shareholder of Jiangmen Yinghuiwan (ultimately controlled by Mr. Zhang Zhangqiao), and Jiangmen Yinghuiwan entered into an equity acquisition and cooperation agreement, pursuant to which Garden Group will acquire 10% equity interest in Jiangmen Yinghuiwan from Heshan Tengyue at a consideration of RMB34,340,000 and cooperate in the projects of Jiangmen Yinghuiwan.

On August 31, 2017, Garden Group entered into the subscription and cooperation agreements with the respective shareholders of Guangdong Hongtai Guotong, Guangdong Guosha, Tianjin Tianfu Rongsheng, Sanya Jingheng, Handan Guoxia and Chongqing Guosha as defined in note 20, which were ultimately controlled by Mr. Zhang Zhangqiao, to make capital contributions to those entities, at a total consideration of RMB233,920,000 to obtain 10% equity interest of each entity.

Those companies were previously accounted for as associates of the Group as at December 31, 2017 as the Group has the right to appoint one director in the board of each entity and has significant influence over these entities.

On April 27, 2018, the Group decided to increase its shareholding in these entities and entered into capital contribution agreements with the following entities, together with their respective shareholders at a total consideration set out below. Upon signing of the capital contribution agreements and the amendment of the articles of associations of each entity, these entities became subsidiaries of the Group. These acquisitions were accounted for using the acquisition method.

44. ACQUISITION OF SUBSIDIARIES (continued)

For the year ended December 31, 2018 (continued)

Acquisition of businesses (continued)

(i) Seven real estate project companies (continued)

| Name of subsidiaries | Capital contributions RMB'000 | Capital of ownership interest held by the Group | |
|---------------------------|----------------------------------|---|-------------------------------|
| | | As at December 31, 2017 | As at December 31, 2018 |
| Jiangmen Yinghuiwan | 170,169 | 10% | 52% |
| Guangdong Hongtai Guotong | 366,980 | 10% | 35%* |
| Guangdong Guosha | 46,770 | 10% | 68% |
| Tianjin Tianfu Rongsheng | 171,060 | 10% | 35%* |
| Sanya Jingheng | 253,820 | 10% | 35%* |
| Handan Guoxia | 87,220 | 10% | 35%* |
| Chongqing Guosha | 72,580 | 10% | 51% |
| | <u>1,168,599</u> | | |

* Upon completion of the capital contribution, the Group held 35% equity interests of Guangdong Hongtai Guotong, Tianjin Tianfu Rongsheng, Sanya Jingheng and Handan Guoxia. According to the articles of association of these entities, the Group has 67% voting rights in the shareholders' meeting and has right to appoint 2 out of 3 directors in the board of directors of these entities. Resolutions in shareholders' meeting of these entities are passed by more than two-thirds voting rights and in the board of directors of these entities are passed by majority votes. Therefore, the Directors concluded that the Group has control over those entities.

(ii) Shijiazhuang Guosha

On November 23, 2018, Beijing Guoxing Wanxun Technology Trade Consulting Co., Ltd. 北京國興萬訊科貿諮詢有限公司 ("Guoxing Wanxun"), an indirect wholly-owned subsidiary of the Company, signed one subscription and cooperative development agreement to make capital contribution in Shijiazhuang Guosha which was originally controlled by Mr. Zhang Zhangqiao. Pursuant to the subscription and cooperative development agreement, Guoxing Wanxun will make capital contribution in Shijiazhuang Guosha of RMB356,100,000 to obtain its 51% equity interest. Upon completion of the capital contribution, Shijiazhuang Guosha became a subsidiary of the Group. The acquisition was accounted for using the acquisition method.

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For the year ended December 31, 2018

44. ACQUISITION OF SUBSIDIARIES (continued)

For the year ended December 31, 2018 (continued)

Acquisition of businesses (continued)

Assets acquired and liabilities recognized at the date of acquisition are as follows:

| | Seven real estate project companies RMB'000 | Shijiazhuang Guosha RMB'000 | Total RMB'000 |
|---|---|-----------------------------------|------------------|
| Assets acquired and liabilities recognized at the date of acquisition: | | | |
| Property, plant and equipment | 8,918 | 169 | 9,087 |
| Other non-current assets | 668 | 327,000 | 327,668 |
| Properties under development for sale | 8,553,279 | 1,877,048 | 10,430,327 |
| Trade and other receivables, deposits and prepayments | 1,017,092 | 29,113 | 1,046,205 |
| Amounts due from related parties | 1,299,842 | — | 1,299,842 |
| Value added tax and tax recoverable | 221,934 | 15,558 | 237,492 |
| Bank balances and cash | 694,238 | 35,931 | 730,169 |
| Trade and other payables | (1,272,441) | (1,172,802) | (2,445,243) |
| Amounts due to related parties | (1,861,140) | — | (1,861,140) |
| Contract liabilities | (3,804,515) | (291,026) | (4,095,541) |
| Tax payable | (466) | — | (466) |
| Bank and other borrowings - due within one year | (200,000) | — | (200,000) |
| Bank and other borrowings - due after one year | (646,900) | (122,000) | (768,900) |
| Deferred tax liabilities | (959,790) | (157,701) | (1,117,491) |
| Fair value of net assets acquired | 3,050,719 | 541,290 | 3,592,009 |
| Bargain purchase gain: | | | |
| Fair value of 10% previously equity interests held by the Group | 379,400 | — | 379,400 |
| Plus: Non-controlling interests | 2,586,084 | 439,065 | 3,025,149 |
| Less: Fair value of net assets acquired | (3,050,719) | (541,290) | (3,592,009) |
| | (85,235) | (102,225) | (187,460) |

The gain from bargain purchase amounted to RMB187,460,000 were recognized as a deemed contribution from a related party and recorded in "other reserve". The difference between the fair value of the previously equity interests held by the Group and the carrying amounts of such interests amounted to RMB121,250,000 was recognized in the profit or loss under "other gains and losses".

44. ACQUISITION OF SUBSIDIARIES (continued)**For the year ended December 31, 2018 (continued)****Acquisition of businesses (continued)**

The non-controlling interests in the subsidiaries recognized at the acquisition date were measured by reference to the proportionate share of net assets acquired.

Net cash inflow arising on acquisition:

| | Seven real estate project companies RMB'000 | Shijiazhuang Guosha RMB'000 | Total RMB'000 |
|---------------------------------|---|-----------------------------------|------------------|
| Bank balances and cash acquired | 694,238 | 35,931 | 730,169 |

For the year ended December 31, 2017**Acquisition of assets**

In November 2017, State Wealth Holdings Limited 國豐控股有限公司 (“State Wealth”), a subsidiary of the Company, entered into an agreement with Chaotuan International Investment Limited 潮團國際投資有限公司 (“Chaotuan International Investment”), an independent third party, with respect to equity interests of Chaotuan International Limited 潮團國際有限公司 (“Chaotuan International”) and its wholly owned subsidiary, Chaotuan International Trade Co., Ltd. 潮團國際商貿有限公司 (“Chaotuan Trade”). According to the agreement, State Wealth will subscribe for 611,111,111 shares of Chaotuan International at a consideration of RMB610,238,000. Upon completion, Chaotuan International will be 55% and 45% held by State Wealth and Chaotuan International Investment, respectively. During the year ended December 31, 2017, the Group subscribed RMB90,000,000 and obtained control of Chaotuan International. Chaotuan International and its subsidiary had not carried on any business or operations other than holding one parcel of land before the acquisition. This acquisition is accounted for as an acquisition of assets and the associated liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

44. ACQUISITION OF SUBSIDIARIES (continued)

For the year ended December 31, 2017 (continued)

Acquisition of assets (continued)

The assets and liabilities of the subsidiary at the date of acquisition is as follow:

| | Chaotuan International RMB'000 |
|---|---|
| Assets acquired and liabilities recognized at the date of acquisition: | |
| Properties under development for sale | 164,433 |
| Bank balances and cash | 90,015 |
| Trade and other payables | (90,802) |
| | <hr/> |
| Fair value of net assets acquired | 163,646 |
| Less: Non-controlling interests | (73,646) |
| | <hr/> |
| | 90,000 |
| | <hr/> |
| Satisfied by: | |
| Cash | 90,000 |
| | <hr/> |
| Net cash (outflow) inflow arising on acquisition: | |
| Cash consideration | (90,000) |
| Bank balances and cash acquired | 90,015 |
| | <hr/> |
| | 15 |
| | <hr/> |

45. DISPOSAL OF SUBSIDIARIES

In 2018, New Beijing Glory disposed of its 51% equity interest in Wuxi Glory to a third party at a nominal amount and Wuxi Glory became an associate of the Group.

The net liabilities of Wuxi Glory at the date of disposal were as follows:

| | RMB'000 |
|--|-----------|
| Analysis of assets and liabilities over which control were lost: | |
| Property, plant and equipment | 13 |
| Properties under development for sale | 220,585 |
| Trade and other receivables, deposits and prepayments | 419 |
| Bank balances and cash | 131 |
| Amounts due to related parties | (221,553) |
| Net liabilities disposed of | (405) |
| Gain on disposal of a subsidiary recognized in profit or loss | 405 |
| Net cash outflow arising on disposal: | |
| Less: Bank balances and cash disposed of | (131) |
| | (131) |

46. PLEDGE OF ASSETS

The following assets were pledged to secure certain bank and trust borrowings granted to the Group at the end of each reporting period:

| | At December 31, | |
|---------------------------------------|-------------------|-------------------|
| | 2018 RMB'000 | 2017 RMB'000 |
| Investment properties | 17,675,155 | 16,769,654 |
| Property, plant and equipment | 814,801 | 617,349 |
| Prepaid lease payments | 278,637 | 286,638 |
| Properties under development for sale | 15,378,746 | 14,215,345 |
| Properties held for sale | 473,279 | 1,203,340 |
| Restricted bank deposits | 11 | 224,995 |
| | 34,620,629 | 33,317,321 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

46. PLEDGE OF ASSETS (continued)

As at December 31, 2018, bank deposits of RMB215,778,000 (2017: RMB198,174,000) were pledged as security for mortgage loans of the Group's customers.

The equity interest of the following companies were pledged to secure certain bank and other loans facilities granted to the Group:

| | As at December 31, 2018 % | As at December 31, 2017 % |
|--|------------------------------------|------------------------------------|
| Foshan Glory Southern | 100 | 100 |
| Glory Investment | 100 | 100 |
| Beijing Wenhushengda | 100 | 100 |
| Foshan Guohua | 100 | 100 |
| Shantou Glory Real Estate Development Co., Ltd. 汕頭市國瑞房地產開發有限公司 (“Shantou Glory”) | 100 | 100 |
| Qidong Yujiangwan | — | 90 |
| Shantou Guorui Hospital Co., Ltd. 汕頭市國瑞醫院有限公司 (“Guorui Hospital”) | 100 | 100 |
| Langfang Glory Real Estate Development Co., Ltd. 廊坊國瑞房地產開發有限公司 (“Langfang Glory”) | 100 | 100 |
| Suzhou Glory | 100 | 100 |
| Beijing Deheng | 100 | 100 |
| Shenzhen Wanji Pharmaceutical Co., Ltd. 深圳萬基藥業有限公司 (“Shenzhen Wanji”) | 75 | 75 |
| Hainan Junhe Industrial Co., Ltd. 海南駿和實業有限公司 (“Hainan Junhe”) | 51 | 51 |
| Glory Xingye (Beijing) Industrial Co., Ltd 國瑞興業（北京）實業股份有限公司 (“Glory Industrial”) | 91 | — |
| Guangdong Hongtai Guotong | 35 | — |

46. PLEDGE OF ASSETS (continued)

Except as disclosed above, the Group pledged 100% equity interest in Hainan Glory Investment & Development Co., Ltd. 海南國瑞投資開發有限公司 (“Hainan Glory Investment”) to Hai Kou New City Construction & Development Co., Ltd. 海口新城區開發建設有限公司 (“Hai Kou New City”) in order to secure the performance obligation as at December 31, 2018 and December 31, 2017. The pledge shall be released within 10 days after the completion of the construction contract. The Group also pledged its equity interest in Ruimao Real Estate to guarantee the agreed fixed return in respect of the capital contribution from Minsheng Trust.

47. COMMITMENTS

| | At December 31, | |
|---|------------------|------------------|
| | 2018 RMB'000 | 2017 RMB'000 |
| Contracted but not provided for in the consolidated financial statements: | | |
| – Expenditure in respect of investment properties under development | 242,421 | 258,097 |
| – Construction of properties for own use | 644,841 | 337,764 |
| – Expenditure in respect of investment in a subsidiary | — | 520,238 |
| – Investment in a joint venture | 1,173,000 | — |
| | 2,060,262 | 1,116,099 |

In addition to the above capital commitments, the Group had contracted expenditure in respect of properties under development for sale of RMB7,202,418,000 (2017: RMB3,557,378,000) as at December 31, 2018, which have not provided for in the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

48. CONTINGENT LIABILITIES

| | At December 31, | |
|--|------------------|------------------|
| | 2018 RMB'000 | 2017 RMB'000 |
| Guarantees provided by the Group in respect of loan facilities utilized by | | |
| – individual property buyers (Note) | 7,651,650 | 7,607,905 |
| – corporate property buyers (Note) | 43,366 | 54,640 |
| | 7,695,016 | 7,662,545 |

Note: The Group has pledged certain restricted bank deposits (details set out in note 46) and provided guarantees to banks in favor of its customers in respect of the mortgage loans provided by the banks to those customers for the purchase of the Group's developed properties and under development properties. These guarantees provided by the Group to the banks will be released upon receiving the building ownership certificate of the respective properties by the banks from the customers as security of the mortgage loans granted.

In the opinion of the Directors, the fair value of the financial guarantee contracts at initial recognition and subsequently at the end of each reporting period is not significant as the default rate is low and a large portion of consideration from property sales contract has been received and recognized as contract liabilities.

Pursuant to the construction contract signed between Hainan Glory Real Estate Development Co., Ltd. 海南國瑞房地產開發有限公司 (“Hainan Glory”) and Hai Kou New City on July 5, 2009, Hainan Glory pledged its 100% equity interest in Hainan Glory Investment to Hai Kou New City, the details of the pledge are disclosed in note 46.

49. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to equity holders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debts, which includes the bank and trust borrowings as disclosed in note 38, and corporate bonds and senior notes as disclosed in notes 39 and 40, net of cash and cash equivalents, and equity attributable to owners of the Company, comprising issued share capital, share premium, retained earnings and other reserves.

The Directors review the capital structure regularly. The Group considers the cost of capital and the risks associated with each class of capital, and will balance its overall capital structure through issuance of new shares, payment of dividends, as well as raising of bank and trust borrowings and redemption of bank and trust borrowings.

50. FINANCIAL INSTRUMENTS

Categories of financial instruments

| | At December 31, | |
|--|-------------------|-------------------|
| | 2018 RMB'000 | 2017 RMB'000 |
| <i>Financial assets</i> | | |
| Financial assets at amortized cost | 6,153,684 | — |
| Loans and receivables (including bank balances and cash) | — | 5,993,142 |
| Equity instruments at FVTOCI | 220,307 | — |
| AFS investments | — | 165,192 |
| Financial assets at FVTPL | — | 97 |
| | 6,373,991 | 6,158,431 |
| <i>Financial liabilities</i> | | |
| Liabilities measured at amortized cost | 37,785,151 | 35,918,453 |
| Rental deposits received | 142,321 | 123,424 |
| | 37,927,472 | 36,041,877 |

Financial risk management objectives and policies

The Group's financial instruments include AFS investments, financial assets at FVTPL, equity investments at FVTOCI, trade and other receivables, amounts due from related parties, restricted bank deposits, bank balances and cash, trade and other payables, amounts due to related parties, bank and trust borrowings, corporate bonds and senior notes. Details of these financial instruments are set out in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

The Group's activities expose primarily to the market risks of changes in interest rates and foreign currency exchange rates.

There has been no significant change to the Group's exposure to market risks or the manner in which it manages and measures the risk over each of the reporting period.

50. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

Market risk (continued)

(1) Interest rate risk

The Group is exposed to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank balances, restricted bank deposits and bank and trust borrowings which carry at prevailing deposit interest rates or variable rate based on the interest rates quoted by the People's Bank of China.

The Group's fair value interest rate risk relates primarily to its fixed rate bank and trust borrowings, corporate bonds and senior notes. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk.

However, the management will consider hedging significant interest rate exposure should the need arise.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note.

Sensitivity analysis

The sensitivity analysis below has been prepared based on the exposure to interest rates on variable rate bank and trust borrowings at the end of the reporting period. No sensitivity analysis has been presented for bank balances and restricted bank deposits as the management considers that the fluctuation in interest rates on bank balances and restricted bank deposits is minimal. For variable rate bank and trust borrowings, the analysis is prepared assuming the stipulated change taking place at the beginning of the financial year and held constant throughout the year. A 50 basis points (2017: 50 basis points) increase or decrease for variable rate bank and trust borrowings are used when reporting interest rate risk internally to key management personnel and represent management's assessment of the reasonably possible change in interest rate in respect of bank and trust borrowings.

If interest rates had been increased/decreased by 50 basis points (2017: 50 basis points) in respect of variable rate bank and trust borrowings and all other variables were held constant, the Group's post-tax profit for the year ended December 31, 2018 (net of interest capitalization effect) would be decreased/increased by approximately RMB3,573,000 (2017: RMB3,647,000).

50. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

Market risk (continued)

(2) Foreign currency risk

The Group collects all of its revenue in RMB and incurs most of its expenditures in RMB.

The Group has certain restricted bank deposits, bank borrowings and senior notes in foreign currencies; hence exposure to exchange rate fluctuations arises. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

| | Liabilities | | Assets | |
|-------|------------------|------------------|-----------------|---------------|
| | At December 31, | | At December 31, | |
| | 2018 | 2017 | 2018 | 2017 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| HK\$ | — | 138,110 | 1,246 | 10,540 |
| US\$ | 4,445,783 | 2,012,824 | 692 | 8,459 |
| SGD\$ | — | — | 75 | — |
| | 4,445,783 | 2,150,934 | 2,013 | 18,999 |

Sensitivity analysis

The sensitivity analysis below has been determined based on a 5% (2017: 5%) possible appreciation or depreciation in other currencies against RMB. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjust its translation at the end of the reporting period for a 5% change in the foreign currency rates. The sensitivity rate used is the rate when reporting foreign currency risk internally to key management personnel and represents the management's assessment of the reasonably possible change in foreign exchange rates.

For financial assets, if the foreign currencies appreciates 5% against RMB and all other variables were held constant, the Group's post-tax profit for the year ended December 31, 2018 would be increased by RMB101,000 (2017: RMB950,000). There would be an equal and opposite impact on post-tax profit for the year if the foreign currencies depreciates 5% against RMB.

For financial liabilities, if the foreign currencies appreciates 5% against RMB and all other variables were held constant, the Group's post-tax profit for the year ended December 31, 2018 would be decreased by RMB222,289,000 (2017: RMB107,547,000). There would be an equal and opposite impact on post-tax profit for the year if the foreign currencies depreciates 5% against RMB.

In the opinion of the Directors, the sensitivity analysis is unrepresentative of the inherent currency risk as the exposure at the end of the reporting period does not reflect the exposure during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

50. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

Market risk (continued)

(3) Other price risk

The Group is exposed to equity price risk through its investments in equity securities measured at FVTOCI. The Group invested in certain unquoted equity securities for investees involved in for long term strategic purposes which had been designed as FVTOCI. The Group has appointed a special team to monitor the price risk and will consider hedging the risk exposure should the need arise.

Credit risk and impairment assessment

The Group is exposed to credit risk in relation to its trade and other receivables, contract assets, amounts due from related parties, restricted bank deposits, bank balances and financial guarantees contract issued by the Group.

At the end of each of the reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties and financial guarantees issued by the Group is arising from the carrying amount of the respective recognized financial assets as stated in the consolidated statement of financial position and the amount of contingent liabilities disclosed in note 48.

To manage this risk, restricted bank deposits and bank balances are mainly placed with state-owned financial institutions and reputable banks. The Group has policies to control the size of the deposits to be placed with various reputable financial institutions according to their market reputation, operating scale and financial background with a view to limiting the amount of credit exposure to any single financial institution.

The Group has no concentration of credit risk in respect of trade and other receivables, with exposure spread over a number of customers, who are individual purchasers for residential properties and various types of corporations and other business entities for commercial properties.

In order to minimize the credit risk, monitoring procedures are carried out to ensure that follow up action is taken to recover overdue debts. In addition, the management of the Group reviews regularly the recoverable amount of trade and other receivables at the end of each reporting period. The amounts presented in the consolidated statement of financial position are net of allowances for credit losses, estimated by the Group's management based on historical settlement records, adjusts for forward-looking information and their assessment of the current economic environment. The Group performs impairment assessment under ECL model upon application of IFRS 9 (2017: incurred loss model) on trade balances individually or based on provision matrix. The Directors have performed impairment assessment for trade and other receivable and concluded that the credit losses of trade and other receivable as at 31 December 2018 was insignificant.

50. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

Credit risk and impairment assessment (continued)

The Group has concentration of credit risk on amounts due from related parties as at December 31, 2018 with details set out in note 52. The management of the Group considers the credit risk and probability of default are low for those related parties, no material loss allowance was recognized in respect of the amounts due from related parties accordingly.

For properties that are presold but development has not been completed, the Group typically provides guarantees to banks in connection with the customers' borrowing of mortgage loans to finance their purchase of the properties for an amount up to 70% of the purchase price of the individual property. If a purchaser defaults on the payment of its mortgage during the period of guarantee, the bank holding the mortgage may demand the Group to repay the outstanding loan and any interest accrued thereon. Under such circumstances, the Group is able to forfeit the sales deposit received and resell the reprocessed properties. Therefore, the management considers it would likely recover any loss incurred arising from the guarantee provided by the Group. The management considers the credit risk exposure to financial guarantees provided to property purchasers is limited because the facilities are secured by the properties, the amount drawn down was held by the Group, and the market price of the properties is higher than the guaranteed amounts. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

Liquidity risk management

The Group's objective is to maintain a balance between continuity of funding and the flexibility through the use of borrowings and its available credit facilities. The Directors closely monitor the liquidity position and ensure it has adequate sources of funding to finance the Group's projects and operations.

The management performs cash flow forecasts for the Group's operations and monitors the forecasts of the Group's liquidity requirements from time to time to ensure the Group has sufficient cash to meet its operational needs and settle liabilities when they fall due. The management takes into account the following considerations in projecting their cash flow forecasts: (a) estimated cash inflows from property sales; (b) further loans under provisional approvals of certain banks which are subject to application by the Group; and (c) senior loan notes for issue up to the amount of US\$750 million (equivalent to approximately RMB5,000 million), the endorsement of which from the National Development and Reform Commission (國家發展和改革委員會) (that valid for the period till June 30, 2019) has been obtained. The Directors consider that the Group will be able to maintain sufficient financial resources to meet its operational needs. However, the current economic conditions continue to create uncertainty particularly over the level of demand for the Group's properties for sale and the availability of bank finances for the foreseeable future. Any delay or unavailability of any of the above measure or sources of finance would impact the Group's liquidity position. The management will closely monitor the liquidity position and set out alternative measures which include adjusting the construction progress as appropriate, reducing the Group's spending on land investments, accelerating sales with more flexible pricing and obtaining other external financing through security market.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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50. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

Liquidity risk management (continued)

The following table details the Group's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are variable rate, the undiscounted amount is derived from interest rate at the end of the reporting period. The amounts included below for variable rate financial liabilities is subject to change if change in interest rates differ to those estimates of interest rates determined at the end of the reporting period.

| | Interest rate | Undiscounted cash flows | | | | Total undiscounted cash flows RMB'000 | Carrying amount RMB'000 |
|-------------------------------------|---------------|---|----------------------|----------------------|-------------------------|--|----------------------------|
| | | On demand and Less than 1 year RMB'000 | 1-2 years RMB'000 | 2-5 years RMB'000 | Over 5 years RMB'000 | | |
| At December 31, 2018 | | | | | | | |
| Trade and other payables | — | 4,721,783 | — | — | — | 4,721,783 | 4,721,783 |
| Amounts due to related parties | — | 4,265,166 | — | — | — | 4,265,166 | 4,265,166 |
| Rental deposits received | — | 36,009 | 28,364 | 77,948 | — | 142,321 | 142,321 |
| Bank and trust borrowings | | | | | | | |
| – Fixed interest rate borrowings | 4.75%-12.00% | 7,951,969 | 3,628,426 | 1,885,952 | 3,722,087 | 17,188,434 | 14,528,642 |
| – Variable interest rate borrowings | 4.75%-8.50% | 2,448,866 | 1,871,225 | 2,835,870 | 3,165,284 | 10,321,245 | 8,770,342 |
| Corporate bonds | 5.47%-7.64% | 1,056,964 | 58,634 | — | — | 1,115,598 | 1,053,435 |
| Senior notes | 7.82%-11.94% | 4,002,961 | 720,636 | — | — | 4,723,597 | 4,445,783 |
| | | 24,483,718 | 6,307,285 | 4,799,770 | 6,887,371 | 42,478,144 | 37,927,472 |
| Financial guarantee contracts | | 7,695,016 | — | — | — | 7,695,016 | — |
| | | 32,178,734 | 6,307,285 | 4,799,770 | 6,887,371 | 50,173,160 | 37,927,472 |
| At December 31, 2017 | | | | | | | |
| Trade and other payables | — | 4,867,561 | — | — | — | 4,867,561 | 4,867,561 |
| Amounts due to related parties | — | 893,229 | — | — | — | 893,229 | 893,229 |
| Rental deposits received | — | 34,031 | 20,815 | 68,578 | — | 123,424 | 123,424 |
| Bank and trust borrowings | | | | | | | |
| – Fixed interest rate borrowings | 5.90%-8.75% | 9,091,478 | 5,178,416 | 2,004,391 | 1,069,366 | 17,343,651 | 15,827,978 |
| – Variable interest rate borrowings | 2.58%-6.50% | 3,762,693 | 1,818,625 | 1,825,867 | 2,077,438 | 9,484,623 | 8,399,086 |
| Corporate bonds | 5.47%-7.64% | 3,272,700 | 1,053,000 | — | — | 4,325,700 | 3,989,651 |
| Senior notes | 7.82% | 211,700 | 2,086,762 | — | — | 2,298,462 | 1,940,948 |
| | | 22,133,392 | 10,157,618 | 3,898,836 | 3,146,804 | 39,336,650 | 36,041,877 |
| Financial guarantee contracts | | 7,662,545 | — | — | — | 7,662,545 | — |
| | | 29,795,937 | 10,157,618 | 3,898,836 | 3,146,804 | 46,999,195 | 36,041,877 |

50. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

Liquidity risk management (continued)

Bank borrowings included in the “on demand and less than 1 year” time band in the above maturity analysis are loans which the Group breached certain covenants of those loans as detailed in note 38. As at December 31, 2017, the aggregate undiscounted principal amounts of these bank borrowings amounted to RMB100,000,000. These loans were fully settled in February 2019.

The amounts included above for financial guarantee contracts are the maximum amounts the Group could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Group considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

Fair value

The Group’s investment in funds of RMB97,000 as at December 31, 2017 is measured subsequent to initial recognition at fair value, are grouped into Level 2 and determined by reference to a discounted cash flows model based on expected interest rates.

The Group’s investment in unlisted investments of RMB220,307,000 as at December 31, 2018 is measured at fair value, are grouped into Level 3.

| Financial assets | Fair value as at | | Fair value hierarchy | Valuation technique and key input |
|---|-------------------|-----------------|----------------------|---|
| | December 31, 2018 | January 1, 2018 | | |
| Equity investments at fair value through other comprehensive income (see note 21) | RMB220,307,000 | RMB229,900,000 | Level 3 | Market approach – the equity value of the company is derived by multiplying the average price-to-book ratio of the comparable companies at 1.84 (January 1, 2018: 1.6278) by the book value of the target company at the valuation date, with discount for lack of marketability (“DLOM”) evaluated as 20.75% (January 1, 2018:12.88%). |

Except as disclosed in notes 39 and 40, the Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the consolidated financial statements approximate their fair values.

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For the year ended December 31, 2018

51. OPERATING LEASE ARRANGEMENT

(a) The Group as lessor

The properties held by the Group for rental purpose have committed tenants from six months to twenty years in which majority are fixed rental.

At the end of the reporting period, the Group has contracted with tenants for the following future minimum lease payments under non-cancellable operating leases:

| | At December 31, | |
|---------------------------------------|------------------|------------------|
| | 2018 RMB'000 | 2017 RMB'000 |
| Within one year | 628,302 | 332,710 |
| In the second to fifth year inclusive | 1,518,288 | 550,211 |
| After fifth year | 457,118 | 208,410 |
| | 2,603,708 | 1,091,331 |

(b) The Group as lessee

The Group leases various office buildings under non-cancellable operating lease agreements. The lease terms are between 1 and 3 years, and the majority of lease agreements are renewable at the end of the lease period at market rate.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

| | At December 31, | |
|---------------------------------------|-----------------|-----------------|
| | 2018 RMB'000 | 2017 RMB'000 |
| Within one year | 1,774 | 1,750 |
| In the second to fifth year inclusive | 732 | 340 |
| After fifth year | 326 | 210 |
| | 2,832 | 2,300 |

52. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the consolidated financial statements, the Group has the following related party balances and transactions.

A. The following parties are identified as related parties to the Group and the respective relationships are set out below:

| Name of related party | Relationship |
|---|--|
| Mr. Zhang Zhangsun | Executive Director and controlling shareholder of the Group |
| Ms. Ruan Wenjuan | Executive Director and spouse of Mr. Zhang Zhangsun |
| Ms. Zhang Jin | Executive Director and daughter of Mr. Zhang Zhangsun |
| Mr. Zhang Zhangqiao | Younger brother of Mr. Zhang Zhangsun |
| Beijing Glory Commercial Management Co., Ltd.* ("Glory Commercial Management") 北京國瑞興業商業管理有限公司 | Controlled by Ms. Zhang Jin |
| Shantou Jinming Wujin Material Co., Ltd.* ("Jinming Wujin") 汕頭市金明五金材料有限公司 | Controlled by Mr. Zhang Zhangsun |
| Foshan Yinhe Ruixing Commercial Management Co., Ltd.* ("Foshan Yinhe") 佛山市銀和瑞興商業管理有限公司 | Controlled by Ms. Zhang Jin |
| Shenyang Glory Xingda Management Co., Ltd.* ("Shenyang Xingda") 瀋陽國瑞興達企業管理有限公司 | Controlled by Ms. Zhang Jin |
| Longhu Huamu | Controlled by Ms. Zhang Youxi, sister of Mr. Zhang Zhangsun |
| Shantou Garden Hotel Management Co., Ltd.* ("Shantou Garden Hotel") 汕頭市花園賓館管理有限公司 | Controlled by Mr. Zhang Zhangsun |
| Beijing Glory Property Services Co., Ltd.* ("Glory Services") 北京國瑞物業服務有限公司 | Controlled by Mr. Zhang Zhangsun |
| Alltogether Land | Parent and ultimate holding company controlled by Mr. Zhang Zhangsun |
| Shenzhen Glory Industrial | Controlled by Mr. Zhang Zhangsun |
| Heshan Tengyue | Controlled by Mr. Zhang Zhangqiao |
| Guangdong Hongtai Guotong | Associate at December 31, 2017 (note 44) |
| Guangdong Guosha | Associate at December 31, 2017 (note 44) |
| Tianjin Tianfu Rongsheng | Associate at December 31, 2017 (note 44) |
| Sanya Jingheng | Associate at December 31, 2017 (note 44) |
| Handan Guoxia | Associate at December 31, 2017 (note 44) |
| Chongqing Guosha | Associate at December 31, 2017 (note 44) |
| Maorui Zhiye | Joint Venture |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

52. RELATED PARTY TRANSACTIONS (continued)

- A. The following parties are identified as related parties to the Group and the respective relationships are set out below: (continued)

| Name of related party | Relationship |
|--|--|
| Ruida Zhiye | Associate |
| Ruimao Real Estate | Joint Venture |
| Shantou Guoxia | Controlled by Mr. Zhang Zhangqiao |
| Hainan Glory Commercial Management Co.,Ltd.* ("Hainan Glory Commercial Management") 海南國瑞興業商業管理有限公司 | Controlled by Ms. Zhang Jin |
| Xian Ruihe Xingda Commercial Management Co., Ltd.* ("Xian Ruihe") 西安瑞和興達商業管理有限公司 | Controlled by Ms. Zhang Jin |
| Wuxi Glory | Associate at December 31, 2018 (note 45) |
| Shantou Garden Property Services Co., Ltd.* ("Shantou Garden Services") 汕頭市花園物業管理有限公司 | Controlled by Ms. Zhang Jin |

* The English name of the companies established in the PRC are for reference only and have not been registered.

52. RELATED PARTY TRANSACTIONS (continued)

- B. At the end of the reporting period, the Group has deposit paid to or amounts receivable from the following related parties and the details are set out below:

| Name of related party | At December 31, | |
|------------------------------------|------------------|------------------|
| | 2018 RMB'000 | 2017 RMB'000 |
| Trade nature (Note (i)): | | |
| Glory Services | — | 3,823 |
| Foshan Yinhe | 16,772 | 16,792 |
| Shenyang Xingda | — | 662 |
| | 16,772 | 21,277 |
| Non-trade nature (Note (ii)): | | |
| Ruida Zhiye | 970,520 | 2,073,866 |
| Shantou Guoxia | 462,224 | — |
| Maorui Zhiye | 511,390 | 827,914 |
| Ruimao Real Estate | 458,376 | — |
| Wuxi Glory | 124,439 | — |
| Foshan Yinhe | 14,645 | — |
| Glory Commercial Management | 12,855 | — |
| Glory Services | 6,360 | — |
| Shenzhen Glory Industrial | 5,000 | 5,000 |
| Longhu Huamu | 4,000 | — |
| Shenyang Xingda | 860 | — |
| Hainan Glory Commercial Management | 847 | — |
| Xian Ruihe | 440 | — |
| Alltogether land | 145 | 140 |
| | 2,572,101 | 2,906,920 |
| Total | 2,588,873 | 2,928,197 |

Notes:

- (i) Balances of trade nature are unsecured, interest free and aged within one year.
- (ii) Balances of non-trade nature are unsecured and repayable on demand. Included in the balances were RMB129,875,000 (2017: RMB73,143,000) bearing interest ranging from 4.35% to 9.30% (2017: 5.94% to 8.00%)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

52. RELATED PARTY TRANSACTIONS (continued)

- B. At the end of the reporting period, the Group has deposit paid to or amounts receivable from the following related parties and the details are set out below: (continued)

| Maximum amount outstanding for non-trade receivables | Year ended December 31, | |
|---|-------------------------|-----------------|
| | 2018 RMB'000 | 2017 RMB'000 |
| Ruida Zhiye | 2,073,866 | 2,073,866 |
| Shantou Guoxia | 462,223 | — |
| Maorui Zhiye | 827,914 | 827,914 |
| Ruimao Real Estate | 458,376 | — |
| Wuxi Glory | 124,439 | — |
| Foshan Yinhe | 14,645 | — |
| Glory Commercial Management | 12,855 | — |
| Glory Services | 6,360 | — |
| Shenzhen Glory Industrial | 5,000 | 5,000 |
| Longhu Huamu | 4,000 | — |
| Shenyang Xingda | 860 | — |
| Hainan Glory Commercial Management | 847 | — |
| Xian Ruihe | 440 | — |
| Alltogether land | 145 | 140 |
| Total | 3,991,970 | 2,906,920 |

52. RELATED PARTY TRANSACTIONS (continued)

C. At the end of the reporting period, the Group has amounts due to the following related parties and the details are set out below:

| Name of related party | At December 31, | |
|-------------------------------|------------------|-----------------|
| | 2018 RMB'000 | 2017 RMB'000 |
| Trade nature: (Note (i)) | | |
| Glory Services | 12,055 | 9,847 |
| Shenyang Xingda | 347 | — |
| Glory Commercial Management | 45 | 2,417 |
| | 12,447 | 12,264 |
| Non-trade nature: (Note (ii)) | | |
| Shantou Guoxia | 1,415,906 | — |
| Longhu Huamu | 1,528,011 | — |
| Alltogether Land (Note (iii)) | 1,225,142 | 605,521 |
| Ruimao Real Estate | 82,820 | — |
| Shantou Garden Services | 650 | — |
| Jinming Wujin | 190 | 181 |
| Shantou Garden Hotel | — | 3 |
| Ruida Zhiye | — | 7,000 |
| Guangdong Hongtai Guotong | — | 67,020 |
| Guangdong Guosha | — | 11,370 |
| Tianjin Tianfu Rongsheng | — | 44,890 |
| Sanya Jingheng | — | 67,130 |
| Handan Guoxia | — | 31,430 |
| Chongqing Guosha | — | 12,080 |
| Heshan Tengyue | — | 34,340 |
| | 4,252,719 | 880,965 |
| Total | 4,265,166 | 893,229 |

Notes:

- (i) Balances of trade nature are unsecured, interest free and aged within one year.
- (ii) Balances of non-trade nature are unsecured, interest free and repayable on demand.
- (iii) The amount represented dividend payable and advance from shareholder of the Company recorded under amounts due to related parties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

52. RELATED PARTY TRANSACTIONS (continued)

- D. During the reporting period, the Group entered into the following transactions with related parties:

| Name of related party | Nature of transaction | Year ended December 31, | |
|-----------------------------|----------------------------------|-------------------------|-----------------|
| | | 2018 RMB'000 | 2017 RMB'000 |
| Trade nature | | | |
| Glory Commercial Management | Property management services fee | 26,658 | 42,978 |
| Foshan Yinhe | Property management services fee | 514 | 24,502 |
| Shenyang Xingda | Property management services fee | 2,715 | 3,838 |
| Glory Services | Property management services fee | 10,925 | 11,944 |

- E. Mr. Zhang Zhangsun and Ms. Ruan Wenjuan have provided guarantees for certain bank loans and trust loans granted to the Group for nil consideration. As at December 31, 2018, the Group has bank loans and other loans guaranteed by Mr. Zhang Zhangsun and Ms. Ruan Wenjuan amounting to RMB10,030,182,000 (December 31, 2017: RMB12,221,178,000).

Mr. Zhang Zhangqiao and his spouse have provided guarantees for certain bank loans and trust loans granted to the Group for nil consideration. As at December 31, 2018, the Group has bank loans and other loans guaranteed by Mr. Zhangqiao and his spouse amounting to RMB564,700,000 (December 31, 2017: nil).

Longhu Huamu has provided guarantees for certain bank loans and other loans granted to the Group for nil consideration. As at December 31, 2018, the Group has bank loans and other loans guaranteed by Longhu Huamu amounting to RMB1,389,132,000 (December 31, 2017: RMB 134,000,000).

Mr. Zhang Zhangsun has provided a guarantee to Minsheng Trust in respect of the fixed return as set out in note 46 amounting to approximately RMB1,173,000,000 as at December 31, 2018.

52. RELATED PARTY TRANSACTIONS (continued)**F. Key management personnel emoluments**

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including directors and other key management of the Group. The key management personnel compensation is as follows:

| | At December 31, | |
|-------------------------------------|------------------------|---------|
| | 2018 | 2017 |
| | RMB'000 | RMB'000 |
| Short-term employee benefits | 25,788 | 26,010 |
| Retirement benefit contributions | 596 | 499 |
| Equity-settled share-based payments | — | 3,003 |
| | 26,384 | 29,512 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

53. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at the end of the reporting period are set out below.

| Name of subsidiaries | Place of incorporation/ establishment | Issued and fully paid share capital/ paid up capital | Attributable equity interest of the Group At December 31, | | Principal activities |
|---|---------------------------------------|--|---|------|---|
| | | | 2018 | 2017 | |
| Garden Group* ^ | PRC | Paid up capital RMB48,000,000 | 100% | 100% | Investment holding |
| Glory Industrial* | PRC | Paid up capital RMB458,224,110 | 91% | 91% | Property development and rental business |
| Shantou Glory Construction Materials and Household Exhibition Center Co., Ltd.* 汕頭國瑞建材家居博覽中心有限公司 | PRC | Paid up capital RMB200,000,000 | 90% | 90% | Rental business |
| Original Beijing Glory* | PRC | Paid up capital RMB1,166,000,000 | 80% | 80% | Property development primary land construction development services and rental business |
| New Beijing Glory* | PRC | Paid up capital RMB52,000,000 | 80% | 80% | Rental business |
| Glory Investment* | PRC | Paid up capital RMB10,000,000 | 80% | 80% | Property development |
| Wanning Glory Real Estate Development Co., Ltd.* 萬寧國瑞房地產開發有限公司 | PRC | Paid up capital RMB30,000,000 | 80% | 80% | Property development |
| Hainan Tongcheng Industrial Co., Ltd.* 海南同城實業有限公司 | PRC | Paid up capital RMB74,270,000 | 80% | 80% | Property development |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

53. PRINCIPAL SUBSIDIARIES (continued)

| Name of subsidiaries | Place of incorporation/ establishment | Issued and fully paid share capital/ paid up capital | Attributable equity interest of the Group | | Principal activities |
|--|---------------------------------------|--|---|------|----------------------|
| | | | At December 31, 2018 | 2017 | |
| Hainan Nanduijiang Industrial Development Co., Ltd.* 海南南渡江實業發展有限公司 | PRC | Paid up capital RMB20,030,000 | 80% | 80% | Property development |
| Haikou Hangrui Development Industrial Co., Ltd.* ("Haikou Hangrui") 海口航瑞實業發展有限公司 | PRC | Paid up capital RMB110,104,100 | 80% | 80% | Property development |
| Hainan Glory Investment* | PRC | Paid up capital RMB466,869,243 | 80% | 80% | Property development |
| Xinzheng Glory Real Estate Development Co., Ltd.* 新鄭市國瑞房地產開發有限公司 | PRC | Paid up capital RMB100,000,000 | 80% | 80% | Property development |
| Foshan Glory Xingye Real Estate Co., Ltd.* 佛山市國瑞興業地產有限公司 | PRC | Paid up capital RMB10,000,000 | 80% | 80% | Property development |
| Foshan Guohua* (note (c)) | PRC | Paid up capital RMB100,000,000 | 44% | 44% | Property development |
| Langfang Guosheng Real Estate Development Co., Ltd.* 廊坊國盛房地產開發有限公司 | PRC | Paid up capital RMB30,000,000 | 80% | 80% | Property development |
| Langfang Glory* | PRC | Paid up capital RMB150,000,000 | 80% | 80% | Property development |
| Langfang Guoxing * ^ | PRC | Paid up capital RMB2,011,667,394 | 100% | 100% | Property development |
| Shenyang Dadongfang Properties Co., Ltd.* 瀋陽大東方置業有限公司 | PRC | Paid up capital RMB186,362,194 | 80% | 80% | Property development |
| Shenyang Glory Industrial Commerce Co., Ltd.* 瀋陽國瑞興業商務有限公司 | PRC | Paid up capital RMB1,000,000 | 80% | 80% | Rental business |
| Shaanxi Huawei Shida Industrial Co., Ltd.* 陝西華威世達實業有限公司 | PRC | Paid up capital RMB200,000,000 | 80% | 80% | Property development |
| Hainan Junhe* | PRC | Paid up capital RMB50,000,000 | 80% | 80% | Property development |

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53. PRINCIPAL SUBSIDIARIES (continued)

| Name of subsidiaries | Place of incorporation/ establishment | Issued and fully paid share capital/ paid up capital | Attributable equity interest of the Group At December 31, | | Principal activities |
|--|---------------------------------------|--|---|------|--|
| | | | 2018 | 2017 | |
| Beijing Wenhushengda* | PRC | Paid up capital RMB50,000,000 | 80% | 80% | Property development |
| Foshan Glory Southern* | PRC | Paid up capital RMB33,330,000 | 80% | 80% | Property development and rental business |
| Shenzhen Wanji* | PRC | Paid up capital RMB130,000,000 | 80% | 80% | Rental business |
| Shenyang Guoyi Business Management Co., Ltd.* 瀋陽國益商業管理有限公司 | PRC | Paid up capital RMB20,000,000 | 80% | 80% | Rental business |
| Shenyang Guorui Business Management Co., Ltd.* 瀋陽國瑞商業管理有限公司 | PRC | Paid up capital RMB50,000,000 | 80% | 80% | Rental business |
| Shenyang Guosheng Business Management Co., Ltd.* 瀋陽國盛商業管理有限公司 | PRC | Paid up capital RMB30,000,000 | 80% | 80% | Rental business |
| Shantou Glory* | PRC | Paid up capital RMB200,000,000 | 80% | 80% | Property development |
| Suzhou Glory* | PRC | Paid up capital RMB50,000,000 | 80% | 80% | Property development |
| Qidong Yujiangwan* | PRC | Paid up capital RMB50,000,000 | 72% | 72% | Property development |
| Yaoji (Nantong) Industrial Co., Ltd.* 姚記(南通)實業有限公司 | PRC | Paid up capital RMB102,500,000 | 72% | 72% | Property development |
| Shantou Glory Properties Co., Ltd.** 汕頭市國瑞置業有限公司 | PRC | Paid up capital RMB920,100,000 | 100% | 100% | Property development |
| Shenzhen Dachao Shan* | PRC | Paid up capital RMB180,093,000 | 85% | 75% | Property development |
| Beijing Deheng* | PRC | Paid up capital RMB50,000,000 | 80% | 80% | Property development |

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53. PRINCIPAL SUBSIDIARIES (continued)

| Name of subsidiaries | Place of incorporation/ establishment | Issued and fully paid share capital/ paid up capital | Attributable equity interest of the Group At December 31, | | Principal activities |
|--|---------------------------------------|--|---|------|----------------------|
| | | | 2018 | 2017 | |
| Chaotuan Trade * ^ | PRC | Paid up capital — | 55% | 55% | Property development |
| Wuxi Glory * | PRC | Paid up capital — | N/A note(45) | 80% | Property development |
| Foshan Guofeng Estate Development Co., Ltd. * 佛山市國豐地產開發有限公司 | PRC | Paid up capital RMB10,000,000 | 80% | 80% | Property development |
| Tongren Glory Real Estate Development Co., Ltd. * 銅仁國瑞房地產開發有限公司 | PRC | Paid up capital — | 100% (Note(b)) | N/A | Property Development |
| Chongqing Guosha * | PRC | Paid up capital RMB40,820,000 | 51% (Note(d)) | N/A | Property Development |
| Handan Guoxia * | PRC | Paid up capital RMB153,850,000 | 35% (Note(d)) | N/A | Property Development |
| Sanya Jingheng * | PRC | Paid up capital RMB815,380,000 | 35% (Note(d)) | N/A | Property Development |
| Tianjin Tianfu Rongsheng * | PRC | Paid up capital RMB615,380,000 | 35% (Note(d)) | N/A | Property Development |
| Guangdong Hongtai Guotong * | PRC | Paid up capital RMB153,850,000 | 35% (Note(d)) | N/A | Property Development |
| Guangdong Guosha * | PRC | Paid up capital RMB20,410,000 | 68% (Note(d)) | N/A | Property Development |
| Jiangmen Yinghuiwan * | PRC | Paid up capital RMB337,960,000 | 52% (Note(d)) | N/A | Property Development |
| Shijiazhuang Guosha * | PRC | Paid up capital RMB102,040,000 | 51% (Note(d)) | N/A | Property Development |

* The English name of the companies which were established in the PRC are for reference only and have not been registered.

^ These companies are wholly foreign owned enterprises established in the PRC. All other entities established in the PRC are limited liability companies.

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53. PRINCIPAL SUBSIDIARIES (continued)

Notes:

- (a) Except Garden Group, none of other subsidiaries had issued any debt securities at the end of each reporting period or at any time during the reporting period.
- (b) The subsidiary was newly established during the year ended December 31, 2018.
- (c) Garden Group held 80% equity interest in New Beijing Glory, which held 55% equity interest in Foshan Guohua. Therefore, the Company indirectly held 44% equity interest in Foshan Guohua.
- (d) These subsidiaries were acquired during the year ended December 31, 2018. Details are set out in note 44.
- (e) All subsidiaries which set out above operate in the PRC.

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

At the end of the reporting period, the Company has other subsidiaries that are not material to the Group. Majority of these subsidiaries operate in the PRC, Hong Kong and British Virgin Islands (“BVI”). The principal activities of these subsidiaries are summarized as follows:

| Principal activities | Principal place of business | Number of subsidiaries | |
|----------------------|-----------------------------|------------------------|-------------------|
| | | December 31, 2018 | December 31, 2017 |
| Property development | PRC | 50 | 23 |
| Investment holding | Hong Kong | 11 | 7 |
| Investment holding | BVI | 3 | 3 |
| | | 64 | 33 |

53. PRINCIPAL SUBSIDIARIES (continued)

The table below shows details of non-wholly owned subsidiaries of the Company that have material non-controlling interests:

| Name of subsidiaries | Place of establishment and principal place of business | Proportion of ownership interests and voting rights held by non-controlling interests | Profit (loss) allocated to non-controlling interests RMB'000 | Accumulated non-controlling interests RMB'000 |
|--|--|---|---|--|
| At December 31, 2018 | | | | |
| Glory Industrial | PRC | 9% | 808 | 164,541 |
| Original Beijing Glory | PRC | 20% | 127,295 | 1,422,014 |
| Shenzhen Dachaoshan | PRC | 15% | (733) | 153,140 |
| New Beijing Glory (excluding non-controlling interests of New Beijing Glory's subsidiaries) (Note) | PRC | 20% | 96,423 | 309,064 |
| Non-wholly owned subsidiaries of New Beijing Glory | | | | |
| – Foshan Guohua | PRC | 45% | 76,619 | 74,082 |
| – Qidong Yujiangwan | PRC | 10% | (3,440) | 183,707 |
| – Individual immaterial subsidiaries with non-controlling interests | PRC | | (106) | 9,849 |
| Guangdong Hongtai Guotong | PRC | 65% | 269,007 | 1,063,964 |
| Shijiazhuang Guosha | PRC | 49% | (719) | 438,346 |
| Chongqing Guosha | PRC | 49% | 19,344 | 119,296 |
| Handan Guoxia | PRC | 65% | (3,561) | 243,254 |
| Sanya Jingheng | PRC | 65% | (8,752) | 699,182 |
| Jiangmen Yinghuiwan | PRC | 48% | (4,470) | 225,648 |
| Tianjin Tianfu Rongsheng | PRC | 65% | (9,415) | 455,840 |
| Guangdong Guosha | PRC | 32% | (285) | 40,768 |
| Total | | | 558,015 | 5,602,695 |

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For the year ended December 31, 2018

53. PRINCIPAL SUBSIDIARIES (continued)

The table below shows details of non-wholly owned subsidiaries of the Company that have material non-controlling interests: (continued)

| Name of subsidiaries | Place of establishment and principal place of business | Proportion of ownership interests and voting rights held by non-controlling interests | Profit (loss) allocated to non-controlling interests RMB'000 | Accumulated non-controlling interests RMB'000 |
|--|--|---|---|--|
| At December 31, 2017 | | | | |
| Glory Industrial | PRC | 9% | 3,123 | 159,365 |
| Original Beijing Glory | PRC | 20% | 157,616 | 1,295,295 |
| Shenzhen Dachaoshan | PRC | 25% | (778) | 238,683 |
| New Beijing Glory (excluding non-controlling interests of New Beijing Glory's subsidiaries) (Note) | PRC | 20% | 93,813 | 347,065 |
| Non-wholly owned subsidiaries of New Beijing Glory | | | | |
| – Foshan Guohua | PRC | 45% | 79,665 | 132,463 |
| – Qidong Yujiangwan | PRC | 10% | — | 187,147 |
| – Individual immaterial subsidiaries with non-controlling interests | PRC | | (121) | 9,955 |
| Total | | | 333,318 | 2,369,973 |

Note: The summarized financial information disclosed below comprised of the financial information of New Beijing Glory and its wholly-owned subsidiaries.

Summarized financial information in respect of each of the Group's subsidiaries that has material non-controlling interest is set out below. The summarized financial information below represents amounts before intragroup eliminations.

53. PRINCIPAL SUBSIDIARIES (continued)**Glory Industrial**

| | At December 31, | |
|---|------------------------|-------------|
| | 2018 | 2017 |
| | RMB'000 | RMB'000 |
| Current assets | 3,943,709 | 3,923,170 |
| Non-current assets | 1,252,074 | 1,183,943 |
| Current liabilities | (2,744,593) | (2,983,141) |
| Non-current liabilities | (622,958) | (353,249) |
| Equity attributable to owners of the Company | 1,663,691 | 1,611,358 |
| Non-controlling interests of Glory Industrial | 164,541 | 159,365 |

| | Year ended December 31, | |
|--|--------------------------------|---------------|
| | 2018 | 2017 |
| | RMB'000 | RMB'000 |
| Revenue | 39,492 | 34,343 |
| Gain on fair value change of investment properties | 14,900 | 38,700 |
| Cost of sales and service and expenses | (38,219) | (38,343) |
| Profit for the year | 16,173 | 34,700 |
| Other comprehensive income for the year | (7,195) | — |
| Profit and total comprehensive income for the year | 8,978 | 34,700 |
| Profit and total comprehensive income attributable to: | | |
| – the owners of the Company | 8,170 | 31,577 |
| – non-controlling interests of Glory Industrial | 808 | 3,123 |
| | 8,978 | 34,700 |
| Net cash inflow from operating activities | 268,148 | 27,536 |
| Net cash inflow (outflow) from investing activities | 49 | (1,885) |
| Net cash outflow from financing activities | (252,655) | (30,020) |
| Net cash inflow (outflow) from the above activities | 15,542 | (4,369) |

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For the year ended December 31, 2018

53. PRINCIPAL SUBSIDIARIES (continued)

Original Beijing Glory

| | At December 31, | |
|---|-------------------------|-----------------|
| | 2018 RMB'000 | 2017 RMB'000 |
| Current assets | 21,557,659 | 19,073,403 |
| Non-current assets | 15,006,299 | 13,957,624 |
| Current liabilities | (18,956,952) | (20,793,292) |
| Non-current liabilities | (10,496,937) | (5,761,260) |
| Equity attributable to owners of the Company | 5,688,055 | 5,181,180 |
| Non-controlling interests of Original Beijing Glory | 1,422,014 | 1,295,295 |
| | | |
| | Year ended December 31, | |
| | 2018 RMB'000 | 2017 RMB'000 |
| Revenue | 630,178 | 262,210 |
| Gain on fair value change of investment properties | 637,637 | 768,882 |
| Cost of sales and expenses | (631,342) | (486,724) |
| Profit for the year | 636,473 | 544,368 |
| Other comprehensive income for the year | — | 243,712 |
| Total comprehensive income for the year | 636,473 | 788,080 |
| Total comprehensive income attributable to: | | |
| – the owners of the Company | 509,178 | 630,464 |
| – non-controlling interests of Original Beijing Glory | 127,295 | 157,616 |
| | 636,473 | 788,080 |
| Net cash (outflow) inflow from operating activities | (1,792,828) | 1,880,089 |
| Net cash inflow (outflow) from investing activities | 58,238 | (779,090) |
| Net cash inflow (outflow) from financing activities | 1,427,248 | (848,251) |
| Net cash (outflow) inflow from the above activities | (307,342) | 252,748 |

53. PRINCIPAL SUBSIDIARIES (continued)**Shenzhen Dachao Shan**

| | At December 31, | |
|---|-------------------------------|-------------------------------|
| | 2018 RMB'000 | 2017 RMB'000 |
| Current assets | 74,336 | 71,901 |
| Non-current assets | 1,069,638 | 1,040,896 |
| Current liabilities | (291,686) | (265,290) |
| Equity attributable to owners of the Company | 699,148 | 608,824 |
| Non-controlling interests of Shenzhen Dachao Shan | 153,140 | 238,683 |

| | Year ended December 31, | |
|---|--------------------------------|-------------------------------|
| | 2018 RMB'000 | 2017 RMB'000 |
| Revenue | (2) | (6) |
| Cost of sales and expenses | (3,385) | (3,107) |
| Loss and total comprehensive expense for the year | (3,387) | (3,113) |
| Total comprehensive expense attributable to: | | |
| – the owners of the Company | (2,654) | (2,335) |
| – non-controlling interests of Shenzhen Dachao Shan | (733) | (778) |
| | (3,387) | (3,113) |
| Net cash outflow from operating activities | (26,019) | (283,412) |
| Net cash (outflow) inflow from investing activities | (8) | 4 |
| Net cash inflow from financing activities | 25,994 | 263,926 |
| Net cash outflow from the above activities | (33) | (19,482) |

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For the year ended December 31, 2018

53. PRINCIPAL SUBSIDIARIES (continued)

New Beijing Glory and subsidiaries

| | At December 31, | |
|---|-----------------|-----------------|
| | 2018 RMB'000 | 2017 RMB'000 |
| Current assets | 36,565,497 | 33,327,759 |
| Non-current assets | 3,653,515 | 2,858,521 |
| Current liabilities | (34,844,226) | (28,309,617) |
| Non-current liabilities | (3,561,828) | (5,811,773) |
| Equity attributable to owners of the Company | 1,236,256 | 1,388,260 |
| Non-controlling interests of New Beijing Glory | 309,064 | 347,065 |
| Non-controlling interests of New Beijing Glory's subsidiaries | 267,638 | 329,565 |

| | Year ended December 31, | |
|---|-------------------------|-----------------|
| | 2018 RMB'000 | 2017 RMB'000 |
| Revenue | 3,442,777 | 3,447,468 |
| Gain on fair value change of investment properties | 207,072 | 112,060 |
| Cost of sales and expense | (3,094,662) | (3,010,919) |
| Profit and total comprehensive income for the year | 555,187 | 548,609 |
| Profit and total comprehensive income attributable to: | | |
| – the owners of the Company | 385,691 | 375,252 |
| – non-controlling interests of New Beijing Glory | 96,423 | 93,813 |
| – non-controlling interests of New Beijing Glory's subsidiaries | 73,073 | 79,544 |
| | 555,187 | 548,609 |
| Dividend paid to non-controlling interests of New Beijing Glory | (135,000) | (191,000) |
| Net cash inflow (outflow) from operating activities | 8,739,925 | (5,079,552) |
| Net cash inflow (outflow) from investing activities | 183,840 | (891,026) |
| Net cash (outflow) inflow from financing activities | (9,403,740) | 6,174,656 |
| Net cash (outflow) inflow from the above activities | (479,975) | 204,078 |

53. PRINCIPAL SUBSIDIARIES (continued)**Foshan Guohua (non-wholly owned subsidiary of New Beijing Glory)**

| | At December 31, | |
|---|--------------------------------|----------------|
| | 2018 | 2017 |
| | RMB'000 | RMB'000 |
| Current assets | 4,538,630 | 4,634,061 |
| Non-current assets | 25,861 | 9,569 |
| Current liabilities | (3,149,864) | (2,699,268) |
| Non-current liabilities | (1,250,000) | (1,650,000) |
| Equity attributable to owners of New Beijing Glory | 90,545 | 161,899 |
| Non-controlling interests of Foshan Guohua | 74,082 | 132,463 |
| | | |
| | Year ended December 31, | |
| | 2018 | 2017 |
| | RMB'000 | RMB'000 |
| Revenue | 592,691 | 773,956 |
| Cost of sales and service and expenses | (422,426) | (596,923) |
| Profit and total comprehensive income for the year | 170,265 | 177,033 |
| Profit and total comprehensive income attributable to: | | |
| – the owners of New Beijing Glory | 93,646 | 97,368 |
| – non-controlling interests of Foshan Guohua | 76,619 | 79,665 |
| | 170,265 | 177,033 |
| Dividend paid to non-controlling interests of Foshan Guohua | (135,000) | (45,000) |
| Net cash inflow from operating activities | 110,731 | 106,263 |
| Net cash inflow from investing activities | 375 | 606 |
| Net cash outflow from financing activities | (171,731) | (157,255) |
| Net cash outflow from the above activities | (60,625) | (50,386) |

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For the year ended December 31, 2018

53. PRINCIPAL SUBSIDIARIES (continued)

Qidong Yujiangwan (non-wholly owned subsidiary of New Beijing Glory)

| | At December 31, | |
|--|-----------------|-----------------|
| | 2018 RMB'000 | 2017 RMB'000 |
| Current assets | 4,457,771 | 2,109,172 |
| Non-current assets | 47,820 | 10,132 |
| Current liabilities | (2,922,118) | (1,088,950) |
| Non-current liabilities | (606,500) | — |
| Equity attributable to owners of New Beijing Glory | 793,266 | 843,207 |
| Non-controlling interests of Qidong Yujiangwan | 183,707 | 187,147 |

| | Year ended December 31, | |
|---|-------------------------|-----------------|
| | 2018 RMB'000 | 2017 RMB'000 |
| Cost of sales and service and expenses | (34,401) | — |
| Loss and total comprehensive expense for the year | (34,401) | — |
| Loss and total comprehensive expense attributable to: | | |
| – the owners of the Company | (30,961) | — |
| – non-controlling interests of Qidong Yujiangwan | (3,440) | — |
| | (34,401) | — |
| Net cash inflow from operating activities | 1,834,947 | — |
| Net cash outflow from investing activities | (16) | — |
| Net cash outflow from financing activities | (1,853,883) | — |
| Net cash outflow from the above activities | (18,952) | — |

53. PRINCIPAL SUBSIDIARIES (continued)**Guangdong Hongtai Guotong**

| | At December 31, 2018 RMB'000 |
|--|--|
| Current assets | 4,171,010 |
| Non-current assets | 25,285 |
| Current liabilities | (1,864,218) |
| Non-current liabilities | (695,209) |
| Equity attributable to owners of the Company | 572,904 |
| Non-controlling interests of Guangdong Hongtai Guotong | 1,063,964 |
| | Period from acquisition date to December 31, 2018 RMB'000 |
| Revenue | 1,593,627 |
| Cost of sales and service and expenses | (1,179,770) |
| Profit and total comprehensive income for the period | 413,857 |
| Profit and total comprehensive income attributable to: | |
| – the owners of the Company | 144,850 |
| – non-controlling interests of Guangdong Hongtai Guotong | 269,007 |
| Net cash outflow from operating activities | (1,245,547) |
| Net cash inflow from investing activities | 336 |
| Net cash inflow from financing activities | 1,251,249 |
| Net cash inflow from the above activities | 6,038 |

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53. PRINCIPAL SUBSIDIARIES (continued)

Shijiazhuang Guosha

| | At December 31, 2018 RMB'000 |
|---|--|
| Current assets | 2,302,377 |
| Non-current assets | 334,531 |
| Current liabilities | (1,584,624) |
| Non-current liabilities | (157,701) |
| Equity attributable to owners of the Company | 456,237 |
| Non-controlling interests of Shijiazhuang Guosha | 438,346 |
| | Period from acquisition date to December 31, 2018 RMB'000 |
| Cost of sales and service and expenses | (1,468) |
| Loss and total comprehensive expense for the period | (1,468) |
| Loss and total comprehensive expense attributable to: | |
| – the owners of the Company | (749) |
| – non-controlling interests of Shijiazhuang Guosha | (719) |
| Net cash outflow from operating activities | (366,282) |
| Net cash inflow from investing activities | 28 |
| Net cash inflow from financing activities | 343,409 |
| Net cash outflow from the above activities | (22,845) |

53. PRINCIPAL SUBSIDIARIES (continued)**Chongqing Guosha**

| | At December 31, 2018 RMB'000 |
|--|--|
| Current assets | 1,407,876 |
| Non-current assets | 149,108 |
| Current liabilities | (1,262,525) |
| Non-current liabilities | (50,997) |
| Equity attributable to owners of the Company | 124,166 |
| Non-controlling interests of Chongqing Guosha | 119,296 |
| | Period from acquisition date to December 31, 2018 RMB'000 |
| Revenue | 457,477 |
| Cost of sales and service and expenses | (417,999) |
| Profit and total comprehensive income for the period | 39,478 |
| Profit and total comprehensive income attributable to: | |
| – the owners of the Company | 20,134 |
| – non-controlling interests of Chongqing Guosha | 19,344 |
| Net cash outflow from operating activities | (516,725) |
| Net cash inflow from investing activities | 229 |
| Net cash inflow from financing activities | 576,573 |
| Net cash inflow from the above activities | 60,077 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

53. PRINCIPAL SUBSIDIARIES (continued)

Handan Guoxia

| | At December 31, 2018 RMB'000 |
|---|--|
| Current assets | 1,794,424 |
| Non-current assets | 263,390 |
| Current liabilities | (1,608,917) |
| Non-current liabilities | (74,660) |
| Equity attributable to owners of the Company | 130,983 |
| Non-controlling interests of Handan Guoxia | 243,254 |
| | Period from acquisition date to December 31, 2018 RMB'000 |
| Gain on fair value change of investment properties | 11,182 |
| Cost of sales and service and expenses | (16,661) |
| Loss and total comprehensive expense for the period | (5,479) |
| Loss and total comprehensive expense attributable to: | |
| – the owners of the Company | (1,918) |
| – non-controlling interests of Handan Guoxia | (3,561) |
| Net cash outflow from operating activities | (1,398,996) |
| Net cash inflow from investing activities | 1,392 |
| Net cash inflow from financing activities | 1,254,333 |
| Net cash outflow from the above activities | (143,271) |

53. PRINCIPAL SUBSIDIARIES (continued)**Sanya Jingheng**

| | At December 31, 2018 RMB'000 |
|---|--|
| Current assets | 1,582,512 |
| Non-current assets | 19,604 |
| Current liabilities | (380,103) |
| Non-current liabilities | (146,348) |
| Equity attributable to owners of the Company | 376,483 |
| Non-controlling interests of Sanya Jingheng | 699,182 |
| | Period from acquisition date to December 31, 2018 RMB'000 |
| Cost of sales and service and expenses | (13,465) |
| Loss and total comprehensive expense for the period | (13,465) |
| Loss and total comprehensive expense attributable to: | |
| – the owners of the Company | (4,713) |
| – non-controlling interests of Sanya Jingheng | (8,752) |
| Net cash outflow from operating activities | (516,967) |
| Net cash inflow from investing activities | 79 |
| Net cash inflow from financing activities | 565,080 |
| Net cash inflow from the above activities | 48,192 |

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For the year ended December 31, 2018

53. PRINCIPAL SUBSIDIARIES (continued)

Jiangmen Yinghuiwan

| | At December 31, 2018 RMB'000 |
|---|--|
| Current assets | 863,058 |
| Non-current assets | 3,293 |
| Current liabilities | (182,453) |
| Non-current liabilities | (213,798) |
| Equity attributable to owners of the Company | 244,452 |
| Non-controlling interests of Jiangmen Yinghuiwan | 225,648 |
| | Period from acquisition date to December 31, 2018 RMB'000 |
| Cost of sales and service and expenses | (9,313) |
| Loss and total comprehensive expense for the period | (9,313) |
| Loss and total comprehensive expense attributable to: | |
| – the owners of the Company | (4,843) |
| – non-controlling interests of Jiangmen Yinghuiwan | (4,470) |
| Net cash outflow from operating activities | (324,873) |
| Net cash outflow from investing activities | (766) |
| Net cash inflow from financing activities | 362,810 |
| Net cash inflow from the above activities | 37,171 |

53. PRINCIPAL SUBSIDIARIES (continued)**Tianjin Tianfu Rongsheng**

| | At December 31, 2018 RMB'000 |
|---|--|
| Current assets | 2,250,653 |
| Non-current assets | 88,689 |
| Current liabilities | (1,525,260) |
| Non-current liabilities | (112,789) |
| Equity attributable to owners of the Company | 245,453 |
| Non-controlling interests of Tianjin Tianfu Rongsheng | 455,840 |
| | Period from acquisition date to December 31, 2018 RMB'000 |
| Cost of sales and service and expenses | (14,485) |
| Loss and total comprehensive expense for the period | (14,485) |
| Loss and total comprehensive expense attributable to: | |
| – the owners of the Company | (5,070) |
| – non-controlling interests of Tianjin Tianfu Rongsheng | (9,415) |
| Net cash outflow from operating activities | (546,908) |
| Net cash inflow from investing activities | 197 |
| Net cash inflow from financing activities | 687,293 |
| Net cash inflow from the above activities | 140,582 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

53. PRINCIPAL SUBSIDIARIES (continued)

Guangdong Guosha

| | At December 31, 2018 RMB'000 |
|---|--|
| Current assets | 347,419 |
| Non-current assets | 355 |
| Current liabilities | (176,228) |
| Non-current liabilities | (44,147) |
| Equity attributable to owners of the Company | 86,631 |
| Non-controlling interests of Guangdong Guosha | 40,768 |
| | Period from acquisition date to December 31, 2018 RMB'000 |
| Cost of sales and service and expenses | (892) |
| Loss and total comprehensive expense for the period | (892) |
| Loss and total comprehensive expense attributable to: | |
| – the owners of the Company | (607) |
| – non-controlling interests of Guangdong Guosha | (285) |
| Net cash inflow from operating activities | 135,008 |
| Net cash inflow from investing activities | 23 |
| Net cash outflow from financing activities | (134,356) |
| Net cash inflow from the above activities | 675 |

54. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details major changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

| | Borrowings RMB'000 (note 38) | Corporate bonds RMB'000 (note 39) | Senior notes RMB'000 (note 40) | Amounts due to related parties RMB'000 (note 52) | Others RMB'000 (Note) | Total RMB'000 |
|---|------------------------------------|--|---|--|-----------------------------|------------------|
| At January 1, 2017 | 15,907,867 | 3,980,214 | — | 222,082 | 45,636 | 20,155,799 |
| Financing activities | 8,319,197 | — | 2,041,048 | (112,023) | (1,876,266) | 8,371,956 |
| Acquisitions of associates | — | — | — | 275,260 | — | 275,260 |
| Interest expenses | — | 9,437 | 14,595 | — | 1,691,994 | 1,716,026 |
| Exchange difference | — | — | (114,695) | (44,354) | — | (159,049) |
| Dividend declared to owners of the Company | — | — | — | 540,000 | — | 540,000 |
| Dividend declared to the non-controlling interests | — | — | — | — | 236,000 | 236,000 |
| At December 31, 2017 | 24,227,064 | 3,989,651 | 1,940,948 | 880,965 | 97,364 | 31,135,992 |
| Financing activities | (1,896,980) | (2,945,330) | 2,185,701 | 1,126,285 | (2,279,065) | (3,809,389) |
| Acquisitions of subsidiaries | 968,900 | — | — | 1,861,140 | — | 2,830,040 |
| Acquisition of an associate | — | — | — | (7,000) | — | (7,000) |
| Acquisition of partial interest in a subsidiary | — | — | — | — | 12,000 | 12,000 |
| Interest expenses | — | 9,114 | 37,583 | — | 2,212,852 | 2,259,549 |
| Exchange difference | — | — | 281,551 | 52,140 | — | 333,691 |
| Dividend declared to owners of the Company | — | — | — | 204,189 | 95,811 | 300,000 |
| Dividend declared to the non-controlling interests | — | — | — | 135,000 | 135,000 | 270,000 |
| At December 31, 2018 | 23,298,984 | 1,053,435 | 4,445,783 | 4,252,719 | 273,962 | 33,324,883 |

Note: Others mainly include interest payables and dividend payable.

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55. EVENT AFTER THE REPORTING PERIOD

On February 28, 2019, the Company has completed the issuance of senior loan notes (the “Original Notes”) at par value in an aggregate principal amount of US\$160,000,000. The Original Notes bear interest at 13.5% per annum payable semi-annually in arrears on February 27 and August 27 of each year. The Notes will mature on 2022.

On March 1, 2019, the Company completed the full redemption of the 2018 First Tranche Senior Notes with cash. The aggregate redemption price is equivalent to the principal amount of the 2018 First Tranche Senior Notes plus accrued interest to the maturity date.

On March 18, 2019, the Company has completed the issuance of senior loan notes (the “Additional Notes”) at par value in an aggregate principal amount of US\$295,000,000 to be consolidated and form a single series with the Original Notes. The Additional Notes bear interest at 13.5% per annum payable semi-annually in arrears on February 27 and August 27 of each year. The Notes will mature on 2022.

On March 21, 2019, the Company completed the full redemption of the 2017 Senior Notes of which those holders exercised their redemption options with cash.

56. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

| | At December 31, | |
|---|--------------------|--------------------|
| | 2018 RMB'000 | 2017 RMB'000 |
| Non-current Assets | | |
| Unlisted investments in subsidiaries | 792,859 | 454,218 |
| Amounts due from subsidiaries | 6,069,686 | 3,106,831 |
| | 6,862,545 | 3,561,049 |
| Current Assets | | |
| Trade and other receivables, deposits and prepayments | 612 | 583 |
| Bank balances and cash | 1,147 | 17,550 |
| | 1,759 | 18,133 |
| Current Liabilities | | |
| Trade and other payables | 100,544 | 37,823 |
| Senior notes | 3,768,364 | — |
| Bank and trust borrowings - due within one year | — | 209,986 |
| Amounts due to subsidiaries | 216,723 | 192,022 |
| Amount due to a related party | 1,225,142 | 605,521 |
| | 5,310,773 | 1,045,352 |
| Net Current Liabilities | (5,309,014) | (1,027,219) |
| Total Assets less Current Liabilities | 1,553,531 | 2,533,830 |
| Non-current Liability | | |
| Senior notes | 677,419 | 1,940,948 |
| | 677,419 | 1,940,948 |
| Net Assets | 876,112 | 592,882 |
| Capital and Reserves | | |
| Share capital | 3,520 | 3,519 |
| Reserves | 872,592 | 589,363 |
| Total Equity | 876,112 | 592,882 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

56. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (continued)

Movement in the Company's reserves

| | Share premium RMB'000 | Capital reserve RMB'000 | Equity-settled share-based payment reserve RMB'000 | Treasury shares reserve RMB'000 | Retained earnings RMB'000 | Total RMB'000 |
|---|-----------------------------|-------------------------------|--|--|---------------------------------|------------------|
| At January 1, 2017 | 833,681 | 56,242 | 57,785 | (18,748) | 12,198 | 941,158 |
| Profit and total comprehensive income for the year | — | — | — | — | 175,239 | 175,239 |
| Dividend declared to the owners of the Company | (540,000) | — | — | — | — | (540,000) |
| Recognition of equity-settled share-based payments | — | — | 5,206 | — | — | 5,206 |
| Exercise of share options | 12,334 | — | (4,574) | — | — | 7,760 |
| Shares vested under share award scheme | — | — | (18,748) | 18,748 | — | — |
| At December 31, 2017 | 306,015 | 56,242 | 39,669 | — | 187,437 | 589,363 |
| Profit and total comprehensive income for the year | — | — | — | — | 581,988 | 581,988 |
| Dividend declared to owners of the Company | (300,000) | — | — | — | — | (300,000) |
| Exercise of share options | 2,012 | — | (771) | — | — | 1,241 |
| At December 31, 2018 | 8,027 | 56,242 | 38,898 | — | 769,425 | 872,592 |

REGISTERED OFFICE AND PLACE OF BUSINESS IN HONG KONG

Registered office
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Place of Business in Hong Kong
RM2802, 28/F, Harbour Centre
25 Harbour Road
Wan Chai
Hong Kong

TRUSTEE

Citicorp International Limited
39/F, Champion Tower
Three Garden Road
Central
Hong Kong

PAYING AGENT, TRANSFER AGENT AND REGISTRAR

Citibank N.A., London Branch
c/o Citibank, N.A., Dublin Branch
One North Wall Quay
Dublin
Ireland

LEGAL ADVISORS TO THE COMPANY

*As to United States
federal and New York
law*

Milbank LLP
30/F, Alexandra House
18 Chater Road
Central
Hong Kong

As to Hong Kong law

**Jingtian & Gongcheng
LLP**
Suites 3203-3207, 32/F
Edinburgh Tower
The Landmark
15 Queen's Road
Central
Hong Kong

*As to Cayman Islands
and BVI law*

Ogier
11/F, Central Tower
28 Queen's Road
Central
Hong Kong

As to PRC law

Jingtian & Gongcheng
34/F, Tower 3
China Central Place
77 Jianguo Road
Chaoyang District
Beijing
China
100025

LEGAL ADVISORS TO THE INITIAL PURCHASER

As to United States federal and New York law

Davis Polk & Wardwell
18/F, The Hong Kong Club Building
3A Chater Road
Hong Kong

As to PRC law

Jiayuan Law
F407-408 Ocean Plaza
158 Fuxing Men Nei Avenue
Xicheng District
Beijing
China
100031

LEGAL ADVISORS TO THE TRUSTEE

As to United States and New York law

K&L Gates
44/F, Edinburgh Tower
The Landmark
15 Queen's Road
Central
Hong Kong

INDEPENDENT ACCOUNTANTS

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Central
Hong Kong

APPENDIX B
FORM OF SUPPLEMENTAL INDENTURE

FIRST SUPPLEMENTAL INDENTURE

GLORY LAND COMPANY LIMITED

(國瑞置業有限公司)

as Company

and

THE ENTITIES LISTED ON SCHEDULE I HERETO

as Subsidiary Guarantors

and

CITICORP INTERNATIONAL LIMITED

as Trustee

13.5% SENIOR NOTES DUE 2022

THIS FIRST SUPPLEMENTAL INDENTURE (this “**Supplemental Indenture**”), entered into as of _____, 2021, among GLORY LAND COMPANY LIMITED (國瑞置業有限公司), an exempted company incorporated with limited liability under the laws of the Cayman Islands and carrying on business in Hong Kong as “Guorui Properties Limited” (the “**Company**”), the Subsidiary Guarantors listed on Schedule I hereto (the “**Subsidiary Guarantors**”) and Citicorp International Limited, as trustee (the “**Trustee**”).

Capitalized terms used but not defined herein shall have the meanings given to them in the Indenture (as defined below).

RECITALS

WHEREAS, the Company, the Subsidiary Guarantors party thereto and the Trustee entered into the Indenture, dated as of February 27, 2019 (as amended or supplemented to the date hereof, the “**Indenture**”), relating to the Company’s 13.5% Senior Notes Due 2022 (the “**Notes**”);

WHEREAS, Section 9.02 of the Indenture provides that the Indenture may be amended with the consent of the Holders of not less than a majority in aggregate principal amount of the outstanding Notes; *provided* that certain amendments may not be affected without the consent of each Holder of the Notes affected;

WHEREAS, the Company desires and has requested and directed the Trustee to join with it in entering into this Supplemental Indenture for the purpose of amending the Indenture in certain respects as permitted by Section 9.02 of the Indenture;

WHEREAS, the Company has received the consent of the Holders of not less than a majority in aggregate principal amount of the outstanding Notes and has satisfied all other conditions precedent, if any, provided under the Indenture to enable the Company and the Trustee to enter into this Supplemental Indenture, all as certified by an Officers’ Certificate, delivered to the Trustee simultaneously with the execution and delivery of this Supplemental Indenture as contemplated by Section 9.04 of the Indenture; and

WHEREAS, the Company has delivered to the Trustee simultaneously with the execution and delivery of this Supplemental Indenture an Opinion of Counsel relating to this Supplemental Indenture as contemplated by Section 9.04 of the Indenture.

NOW, THEREFORE, in consideration of the foregoing and the mutual promises and covenants contained herein and for other good and valuable consideration, each party hereby agrees, for the benefit of the others and for the equal and ratable benefit of the Holders of the Notes, as follows (amended texts of the Indenture are shown in quotation marks below, with additions shown in double underline and deletions shown in ~~strikethrough~~):

ARTICLE I

AMENDMENTS TO THE INDENTURE

Section 1.1 Addition of the definition of “2021 Notes” in Section 1.01 of the Indenture. Section 1.01 of the Indenture is hereby amended to include the following definition of “2021 Notes”:

“**2021 Notes**” means the senior notes of the Company issued pursuant to an indenture dated on or about January 25, 2021, as described in the exchange offer and consent solicitation memorandum issued by the Company, dated as of January 12, 2021 as supplemented and amended from time to time.

Section 1.2 Amendment to the definition of “Permitted Liens” in Section 1.01 of the Indenture. The definition of “Permitted Liens” contained in Section 1.01 of the Indenture is hereby amended and restated as follows:

““**Permitted Liens**” means:

- (1) Liens for taxes, assessments, governmental charges or claims that are being contested in good faith by appropriate legal or administrative proceedings promptly instituted and diligently conducted and for which a reserve or other appropriate provision, if any, as shall be required in conformity with GAAP shall have been made;
- (2) statutory and common law Liens of landlords and carriers, warehousemen, mechanics, suppliers, repairmen or other similar Liens arising in the ordinary course of business and with respect to amounts not yet delinquent or being contested in good faith by appropriate legal or administrative proceedings promptly instituted and diligently conducted and for which a reserve or other appropriate provision, if any, as shall be required in conformity with GAAP shall have been made;
- (3) Liens incurred or deposits made to secure the performance of tenders, bids, leases, statutory or regulatory obligations, bankers' acceptances, surety and appeal bonds, government contracts, performance and return-of-money bonds and other obligations of a similar nature incurred in the ordinary course of business (exclusive of obligations for the payment of borrowed money);
- (4) leases or subleases granted to others that do not materially interfere with the ordinary course of business of the Company and its Restricted Subsidiaries, taken as a whole;
- (5) Liens encumbering property or assets under construction arising from progress or partial payments by a customer of the Company or its Restricted Subsidiaries relating to such property or assets;
- (6) Liens on property of, or on shares of Capital Stock or Indebtedness of, any Person existing at the time such Person becomes, or becomes a part of, any Restricted Subsidiary; provided that such Liens do not extend to or cover any property or assets of the Company or any Restricted Subsidiary other than the property or assets acquired; provided further that such Liens were not created in contemplation of or in connection with the transactions or series of transactions pursuant to which such Person became a Restricted Subsidiary;
- (7) Liens in favor of the Company or any Restricted Subsidiary;
- (8) Liens arising from the rendering of a final judgment or order against the Company or any Restricted Subsidiary that does not give rise to an Event of Default;
- (9) Liens securing reimbursement obligations with respect to letters of credit that encumber documents and other property relating to such letters of credit and the products and proceeds thereof;
- (10) Liens encumbering customary initial deposits and margin deposits, and other Liens that are within the general parameters customary in the industry, in each case, securing Indebtedness under Hedging Obligations of the type permitted by clause (vi) of Section 4.05(b);
- (11) Liens existing on the Original Issue Date;
- (12) Liens securing Indebtedness which is Incurred to Refinance (i) any secured Indebtedness or (ii) any Indebtedness of a PRC Restricted Subsidiary, which is, in each case, permitted to be Incurred under clause (v) of Section 4.05(b); ~~provided that such Liens do not extend to or cover any property or assets of the Company or any Restricted Subsidiary other than the property or assets securing the Indebtedness being refinanced;~~
- (13) any interest or title of a lessor in the property subject to any operating lease;
- (14) Liens securing Indebtedness of the Company or any Restricted Subsidiary under any Pre-Registration Mortgage Guarantee;

- (15) easements, rights-of-way, municipal and zoning ordinances or other restrictions as to the use of properties in favor of governmental agencies or utility companies that do not materially adversely affect the value of such properties or materially impair the use for the purposes of which such properties are held by the Company or any Restricted Subsidiary;
- (16) Liens (including extensions and renewals thereof) upon real or personal property; provided that, (a) such Lien is created solely for the purpose of securing Indebtedness of the type described under clause (viii) of Section 4.05(b) and such Lien is created prior to, at the time of or within 180 days after the later of the acquisition or the completion of development, construction or improvement of such property, (b) the principal amount of the Indebtedness secured by such Lien does not exceed 100% of the cost of such property, development, construction or improvement and (c) such Lien shall not extend to or cover any property or assets other than such item of property and any improvements on such item; provided that, in the case of clauses (b) and (c), such Lien may cover other property or assets (instead of or in addition to such item of property or improvements) and the principal amount of Indebtedness secured by such Lien may exceed 100% of such cost if (x) such Lien is incurred in the ordinary course of business and (y) the aggregate book value of property or assets (as reflected in the most recent available consolidated financial statements of the Company (which may be internal consolidated financial statements) or, if any such property or assets have been acquired since the date of such financial statements, the cost of such property or assets) subject to Liens incurred pursuant to this clause (16) does not exceed 130% of the aggregate principal amount of Indebtedness secured by such Liens;
- (17) Liens on deposits of pre-sale proceeds made in order to secure the completion and delivery of pre-sold properties and issuance of the related land use title made in the ordinary course of business and not securing Indebtedness of the Company or any Restricted Subsidiary;
- (18) Liens on deposits made in order to comply with statutory obligations to maintain deposits for workers compensation claims, welfare and social benefits, property maintenance and other purposes specified by statute made in the ordinary course of business and not securing Indebtedness of the Company or any Restricted Subsidiary;
- (19) Liens on deposits made in order to secure the performance of the Company or any of its Restricted Subsidiaries in connection with the acquisition of real property or land use rights or personal property (including without limitation, Capital Stock) by the Company or any of its Restricted Subsidiaries (including, without limitation, by way of acquisition of Capital Stock of a Person) in the ordinary course of business and not securing Indebtedness of the Company or any Restricted Subsidiary;
- (20) Liens incurred on one or more bank accounts or deposits to secure Bank Deposit Secured Indebtedness;
- (21) Liens incurred or deposits made to secure Entrusted Loans;
- (22) Liens on current assets securing Indebtedness which is permitted to be Incurred under clause (xiv) of Section 4.05(b);
- (23) Liens on the Capital Stock of the Person that is to be acquired under the relevant Staged Acquisition Agreement or Minority Staged Acquisition Agreement securing Indebtedness which is permitted to be Incurred under clause (xv) or (xviii), respectively, of Section 4.05(b);
- (24) Liens granted by the Company or a Restricted Subsidiary in favor of a Financial Company Investor in respect of, and to secure, the Indebtedness permitted under clause (xvii) of Section 4.05(b);

- (25) Liens securing Indebtedness permitted to be Incurred under clause (xviii) of Section 4.05(b);
- (26) Liens securing Indebtedness Incurred under clause (xix) of Section 4.05(b); provided that such Liens are already existing at the time such Indebtedness is Incurred and have not been created with the approval or consent of the Company (other than refinancings in the ordinary course) in anticipation of such acquisition;
- (27) Liens on Investment Properties securing Indebtedness of the Company or Restricted Subsidiary incorporated under the laws of the PRC permitted to be Incurred under clause (xx) of Section 4.05(b);
- (28) Liens securing Indebtedness permitted under clause (xxii) of Section 4.05(b); ~~and~~
- (29) Liens securing Indebtedness of Restricted Subsidiaries (other than Subsidiary Guarantors or JV Subsidiary Guarantors) Incurred pursuant to clause (xxiii) of Section 4.05(b); and
- (30) Liens securing the 2021 Notes.

Section 1.3 Amendments to Section 4.04(b)(v) of the Indenture. Section 4.04(b)(v) of the Indenture is hereby amended and restated as follows:

“(v) Indebtedness (“**Permitted Refinancing Indebtedness**”) issued in exchange for, or the net proceeds of which are used to refinance, refund, replace, exchange, renew, repay, defease, discharge or extend (collectively, “Refinance” and “Refinances” and “Refinanced” shall have a correlative meaning), then outstanding Indebtedness (or Indebtedness that is no longer outstanding but that is Refinanced substantially concurrently with the Incurrence of such Permitted Refinancing Indebtedness) Incurred under the immediately preceding paragraph (a) or clause (i), (ii), (iii), (viii), (xiv), (xvi), (xvii), (xviii), (xix) (xx), (xxi) or (xxiii) of this Section 4.05(b) and any Refinancings thereof in an amount not to exceed the amount so Refinanced (plus premiums, accrued interest, fees and expenses); *provided* that (1) Indebtedness the proceeds of which are used to Refinance the Notes or Indebtedness that is *pari passu* with, or subordinated in right of payment to, the Notes or a Subsidiary Guarantee or a JV Subsidiary Guarantee shall only be permitted under this clause (v) if (A) in case the Notes are Refinanced in part or the Indebtedness to be Refinanced is *pari passu* with the Notes or a Subsidiary Guarantee or a JV Subsidiary Guarantee, such new Indebtedness, by its terms or by the terms of any agreement or instrument pursuant to which such new Indebtedness is outstanding, is expressly made *pari passu* with, or subordinate in right of payment to, the remaining Notes or such Subsidiary Guarantee or such JV Subsidiary Guarantee, as the case may be, or (B) in case the Indebtedness to be Refinanced is subordinated in right of payment to the Notes or a Subsidiary Guarantee or a JV Subsidiary Guarantee, such new Indebtedness, by its terms or by the terms of any agreement or instrument pursuant to which such new Indebtedness is issued or remains outstanding, is expressly made subordinate in right of payment to the Notes or such Subsidiary Guarantee or such JV Subsidiary Guarantee, as the case may be, at least to the extent that the Indebtedness to be Refinanced is subordinated to the Notes or such Subsidiary Guarantee or such JV Subsidiary Guarantee, (2) such new Indebtedness, determined as of the date of Incurrence of such new Indebtedness, does not mature prior to the Stated Maturity of the Indebtedness to be Refinanced, and the Average Life of such new Indebtedness is at least equal to the remaining Average Life of the Indebtedness to be Refinanced, (3) in no event may Indebtedness of the Company, any Subsidiary Guarantor or any JV Subsidiary Guarantor be Refinanced pursuant to this clause by means of any Indebtedness of any Restricted Subsidiary that is neither a Subsidiary Guarantor nor a JV Subsidiary Guarantor, and (4) in no event may Indebtedness of the Company or any Subsidiary Guarantor be Refinanced pursuant to this clause by means of any Indebtedness of any JV Subsidiary Guarantor (*provided* that this sub-clause (4) shall not prohibit the replacement of a Subsidiary Guarantee by a JV Subsidiary Guarantee if otherwise permitted by this Indenture); *provided further that, notwithstanding any of the foregoing, the Incurrence of the 2021 Notes shall always be permitted under this clause (v);*”

Section 1.4 Amendments to Section 4.08(b) of the Indenture. Section 4.08(b) of the Indenture is hereby amended and restated as follows:

“(vi) with respect to any Restricted Subsidiary and imposed pursuant to an agreement that has been entered into for the Incurrence of Indebtedness or issuance of Preferred Stock or Disqualified Stock of the type described under clause (v), (vii), (viii), (xv), (xvii), (xviii), (xix), (xx) or (xxi) or permitted under clause (xiv), (xv), (xvi), or (xxii) of Section 4.05(b) if, as determined by the Board of Directors, such encumbrances or restrictions are (i) customary for such types of agreements and (ii) would not, at the time agreed to, be expected to materially and adversely affect the ability of the Company to make required payment on the Notes, and any extensions, Refinancings, renewals or replacements of any of the foregoing agreements; *provided* that the encumbrances and restrictions in any such extension, Refinancing, renewal or replacement, taken as a whole, are no more restrictive in any material respect to the Holders than those encumbrances or restrictions that are then in effect and that are being extended, Refinanced, renewed or replaced; *provided further* that, the Board of Directors is empowered to determine whether the conditions set forth in clauses (i) and (ii) are met, which determination shall be conclusive if evidenced by a Board Resolution; *provided further* that, notwithstanding any of the foregoing, any such encumbrances or restrictions contained in the terms of the 2021 Notes shall always be permitted under this clause (vi);”

Section 1.5 Amendments to Section 4.15(b) of the Indenture. The second paragraph of Section 4.15(b) of the Indenture is hereby amended and restated as follows:

“In addition, the requirements of clause (ii) of Section 4.15(a) shall not apply to (A) Investments (including Permitted Investments that are permitted under paragraph (18) of the definition of “Permitted Investments” but otherwise excluding any other Permitted Investments) not prohibited by Section 4.06, (B) transactions pursuant to agreements in effect on the Original Issue Date and described in the offering memorandum of the Company dated February 25, 2019, or any amendment or modification or replacement thereof, so long as such amendment, modification or replacement is not more disadvantageous to the Company and its Restricted Subsidiaries than the original agreement in effect on the Original Issue Date, ~~and~~ (C) any transaction between or among any of the Company, any Wholly Owned Restricted Subsidiary and any Restricted Subsidiary that is not a Wholly Owned Restricted Subsidiary or between or among the Company or a Restricted Subsidiary on the one hand and a Jointly Controlled Entity, an Associate or an Unrestricted Subsidiary on the other hand and (D) any Affiliate Transaction that is conducted in compliance with the connected transaction rules of the Hong Kong Stock Exchange, for as long as the Capital Stock of the Company remains listed on the Main Board of the Stock Exchange of Hong Kong; *provided* that, in the case of clause (D), the Company, at the time of such transaction, is listed on the Main Board of the Stock Exchange of Hong Kong; and *provided further* that in the case of clause (C) (1) such transaction is entered into in the ordinary course of business, and (2) none of the shareholders or partners (other than the Company or any Restricted Subsidiary) of or in such Restricted Subsidiary that is not a Wholly Owned Restricted Subsidiary, Jointly Controlled Entity, Associate or Unrestricted Subsidiary is a Person described in clause (x) or (y) of Section 4.15(a) (other than by reason of such shareholder or partner being an officer or director of such Restricted Subsidiary, Jointly Controlled Entity, Associate or Unrestricted Subsidiary, as the case may be).”

ARTICLE II

MISCELLANEOUS PROVISIONS

Section 2.1 This Supplemental Indenture shall be governed by and construed in accordance with the laws of the State of New York.

Section 2.2 This Supplemental Indenture may be signed in various counterparts which together will constitute one and the same instrument.

Section 2.3 This Supplemental Indenture is an amendment supplemental to the Indenture and the Indenture and this Supplemental Indenture will henceforth be read together. Except as amended hereby, the Indenture is in all respects ratified and confirmed and all the terms, conditions and provisions thereof shall remain in full force and effect. This Supplemental Indenture shall form a part of the Indenture for all purposes, and every Holder of Notes heretofore or hereafter authenticated and delivered under the Indenture shall be bound by the Indenture as amended hereby.

Section 2.4 The Trustee shall not be responsible in any manner whatsoever for or in respect of the validity or sufficiency of this Supplemental Indenture or the correctness of the recitals contained herein all of which are made solely by the Company and the Subsidiary Guarantors.

Section 2.5 Notwithstanding anything contained herein, nothing in this Supplemental Indenture shall relieve the Company, the Subsidiary Guarantors or the Trustee of any of their obligations under the Indenture, as amended and supplemented by this Supplemental Indenture, and the Notes.

Section 2.6 In case any provision in this Supplemental Indenture shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

Section 2.7 The provisions of Article I of this Supplemental Indenture shall be effective upon execution, and shall not become operative until the time the Company pays the Holders who delivered consents to the amendments set forth in the exchange offer and consent solicitation memorandum issued by the Company, dated as of January 12, 2021 as supplemented and amended from time to time.

[The remainder of this page intentionally left blank]

IN WITNESS WHEREOF, the parties hereto have caused this Indenture to be duly executed as of the date first written above.

GLORY LAND COMPANY LIMITED
國瑞置業有限公司

By: _____
Name:
Title:

GLORY (HK) INVESTMENT LIMITED
國瑞(香港)投資有限公司

By: _____
Name:
Title:

ALL AFFLUENT HOLDINGS LIMITED

By: _____
Name:
Title:

STATE WEALTH HOLDINGS LIMITED

By: _____
Name:
Title:

WELL AMPLE HOLDINGS LIMITED

By: _____
Name:
Title:

ALL AFFLUENT HOLDINGS (HK) LIMITED
通裕控股(香港)有限公司

By: _____
Name:
Title:

STATE WEALTH HOLDINGS (HK) LIMITED
國豐控股(香港)有限公司

By: _____
Name:
Title:

WELL AMPLE HOLDINGS (HK) LIMITED
國益控股(香港)有限公司

By: _____
Name:
Title:

CITICORP INTERNATIONAL LIMITED
as Trustee

By: _____
Name:
Title:

SCHEDULE I

LIST OF SUBSIDIARY GUARANTORS

| No. | Name of guarantors | Jurisdiction of incorporation or organization, as applicable |
|-----|--|--|
| 1. | GLORY (HK) INVESTMENT LIMITED 國瑞(香港)投資有限公司 (formerly known as Glory Real Estate (HK) Investment Limited (國瑞地產(香港)投資有限公司)) | Hong Kong |
| 2. | ALL AFFLUENT HOLDINGS LIMITED | BVI |
| 3. | State Wealth Holdings Limited | BVI |
| 4. | Well Ample Holdings Limited | BVI |
| 5. | All Affluent Holdings (HK) Limited 通裕控股(香港)有限公司 | Hong Kong |
| 6. | State Wealth Holdings (HK) Limited 國豐控股(香港)有限公司 | Hong Kong |
| 7. | Well Ample Holdings (HK) Limited 國益控股(香港)有限公司 | Hong Kong |

Questions about the terms of the Exchange Offer and Consent Solicitation should be directed to the Dealer Manager at its respective addresses and telephone numbers set forth below.

If you have questions regarding tender or exchange procedures, please contact the Information, Tabulation and Exchange Agent at the address and telephone number set forth below.

For additional copies of this exchange offer and consent solicitation memorandum, please contact the Information, Tabulation and Exchange Agent at the address and telephone number set forth below.

Beneficial owners may also contact their brokers, dealers, commercial banks, trust companies or other nominee for assistance concerning the Exchange Offer and Consent Solicitation.

The Information, Tabulation and Exchange Agent for the Exchange Offer and Consent Solicitation is:

D.F. King

In London
65 Gresham Street
London EC2V 7NQ
United Kingdom
Tel: +44 20 7920 9700

In Hong Kong
Suite 1601, 16th Floor, Central Tower
28 Queen's Road Central
Hong Kong
Tel: +852 3953 7208

Email: guorui@dfkingltd.com

Exchange and Consent Website: <https://sites.dfkingltd.com/guorui>

The Dealer Manager for the Exchange Offer and Consent Solicitation is:

Haitong International Securities Company Limited

22/F, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong SAR, China