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This announcement is for information purposes only and is not an offer to sell or the solicitation of an offer to buy securities in the United States or in any other jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

Neither this announcement nor any copy hereof may be taken into or distributed in the United States. The securities referred to herein have not been and will not be registered under the United States Securities Act of 1933, as amended, and may not be offered or sold in the United States absent registration or an applicable exemption from registration. No public offer of securities is to be made by the Issuer in the United States.

PUBLICATION OF OFFERING CIRCULAR

China Overseas Grand Oceans Finance IV (Cayman) Limited
(incorporated in the Cayman Islands with limited liability)

US\$512,000,000

2.45 per cent. Guaranteed Notes due 2026

(Stock Code: 40592)

unconditionally and irrevocably guaranteed by

 **中國海外宏洋集團有限公司**
CHINA OVERSEAS GRAND OCEANS GROUP LTD.
(incorporated in Hong Kong with limited liability)

(Stock Code: 81)

This announcement is issued pursuant to Rule 37.39A of the Listing Rules. Please refer to the offering circular dated 2 February 2021 (the “**Offering Circular**”) appended herein in relation to the issuance of the US\$512,000,000 2.45 per cent. Guaranteed Notes due

2026 (the “Notes”) issued by China Overseas Grand Oceans Finance IV (Cayman) Limited (the “Issuer”) and guaranteed by China Overseas Grand Oceans Group Limited (the “Guarantor”). The Offering Circular is published in English only. No Chinese version of the Offering Circular has been published.

Notice to Hong Kong investors: the Issuer and the Guarantor confirm that the Notes are intended for purchase by professional investors (as defined in Chapter 37 of the Listing Rules) only and have been listed on The Stock Exchange of Hong Kong Limited on that basis. Accordingly, the Issuer and the Guarantor confirm that the Notes are not appropriate as an investment for retail investors in Hong Kong or elsewhere. Investors should carefully consider the risks involved.

The Offering Circular 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 Offering Circular 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 Offering Circular.

By Order of the Board

China Overseas Grand Oceans Finance IV (Cayman) Limited

Zhuang Yong

Director

Hong Kong, 10 February 2021

As at the date of this announcement, the board of directors of the Guarantor comprises eight directors, of which three are executive directors, namely, Mr. Zhuang Yong, Mr. Yang Lin and Mr. Paul Wang Man Kwan; two non-executive directors, namely Mr. Yan Jianguo and Mr. Billy Yung Kwok Kee, and three independent non-executive directors, namely Dr. Timpson Chung Shui Ming, Mr. Jeffrey Lam Kin Fung and Mr. Dantes Lo Yiu Ching.

As at the date of this announcement, the directors of the Issuer are Mr. Zhuang Yong and Mr. Yang Lin.

IMPORTANT NOTICE

NOT FOR DISTRIBUTION TO ANY PERSON OR ADDRESS IN THE UNITED STATES OR TO ANY U.S. PERSONS

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

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES AND THE GUARANTEE DESCRIBED HEREIN HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”) AND, SUBJECT TO CERTAIN EXCEPTIONS, 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 UNDER THE SECURITIES ACT (“REGULATION S”)).

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

Confirmation of your Representation: In order to be eligible to view this Offering Circular or make an investment decision with respect to the securities, investors must not be U.S. persons or located in the United States. This Offering Circular is being sent at your request and by accepting the e-mail and accessing this Offering Circular, you shall be deemed to have represented to BOCI Asia Limited, China International Capital Corporation Hong Kong Securities Limited, CLSA Limited, DBS Bank Ltd., Mizuho Securities Asia Limited, BOCOM International Securities Limited, China Construction Bank (Asia) Corporation Limited, CMBC Securities Company Limited, ICBC International Securities Limited, Shanghai Pudong Development Bank Co., Ltd., Hong Kong Branch and SMBC Nikko Capital Markets Limited (together, the “**Joint Lead Managers**”) that you are not a U.S. person and your stated e-mail address to which this e-mail has been delivered is not located in the United States and that you consent to delivery of this Offering Circular by electronic transmission.

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

The materials relating to any offering of securities 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 issue of securities be made by a licensed broker or dealer and the underwriters or any affiliate of the underwriters is a licensed broker or dealer in that jurisdiction, the issue of securities shall be deemed to be made by the underwriters or such affiliate on behalf of the Issuer (as defined in this Offering Circular) in such jurisdiction.

This Offering Circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Joint Lead Managers, nor any person who controls any of them nor any of their respective directors, officers, employees, agents or affiliates accepts any liability or responsibility whatsoever in respect of any difference between this Offering Circular distributed to you in electronic format and the hard copy version available to you on request from the Joint Lead Managers.

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.

Actions that you may not take: If you receive this document by e-mail, you should not reply by e-mail to this announcement, and you may not purchase any securities by doing so. Any reply e-mail communications, including those you generate by using the “**Reply**” function on your e-mail software, will be ignored or rejected.

China Overseas Grand Oceans Finance IV (Cayman) Limited
中國海外宏洋財務IV (開曼)有限公司
(incorporated in the Cayman Islands with limited liability)

US\$512,000,000 2.45 per cent. Guaranteed Notes due 2026

unconditionally and irrevocably guaranteed by

China Overseas Grand Oceans Group Limited
中國海外宏洋集團有限公司
(incorporated in Hong Kong with limited liability)

Issue price for the Notes: 99.916 per cent.

The US\$512,000,000 2.45 per cent. Guaranteed Notes due 2026 (the “Notes”) will be issued by China Overseas Grand Oceans Finance IV (Cayman) Limited 中國海外宏洋財務IV (開曼)有限公司 (the “Issuer”). The Notes will be direct, unconditional, unsubordinated and (subject to the provisions of Condition 5 of the Terms and Conditions of the Notes) unsecured obligations of the Issuer and will be unconditionally and irrevocably guaranteed (the “Guarantee”) by China Overseas Grand Oceans Group Limited (the “Company” or the “Guarantor”).

Interest on the Notes is payable semi-annually in arrear in equal instalments on 9 February and 9 August in each year at the rate of 2.45 per cent. per annum, commencing on 9 August 2021. Payments on the Notes will be made free and clear of, and without withholding or deduction for or on account of taxes of any Relevant Jurisdiction (as defined in the Terms and Conditions of the Notes) to the extent described under “Terms and Conditions of the Notes – Taxation”.

Unless previously redeemed, or purchased and cancelled, the Notes will mature on 9 February 2026. The Notes are subject to redemption in whole, but not in part, at their principal amount, together with accrued interest, at the option of the Issuer at any time in the event of certain changes affecting taxes of any Relevant Jurisdiction. See “Terms and Conditions of the Notes – Redemption and Purchase – Redemption for Taxation Reasons”. In addition, the Issuer may at any time redeem the Notes, in whole but not in part, at the Early Redemption Amount (as defined in the Terms and Conditions of the Notes). See “Terms and Conditions of the Notes – Redemption and Purchase – Optional Redemption”. The Notes may also be redeemed at the option of the holders at their principal amount together with accrued interest following the occurrence of a Change of Control (as defined in the Terms and Conditions of the Notes). See “Terms and Conditions of the Notes – Redemption and Purchase – Redemption upon Change of Control”.

Application has been 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 Hong Kong Stock Exchange) (“Professional Investors”) only. This document is for distribution to Professional Investors only.

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

The Hong Kong Stock Exchange has not reviewed the contents of this 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, the Issuer, the Guarantor or quality of disclosure in this document. Hong Kong Exchanges and Clearing Limited and the Hong Kong Stock Exchange take no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

Pursuant to the Notice on Promoting the Reform of the Filing and Registration System for Issuance of Foreign Debt by Corporates (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 (the “NDRC Notice”) promulgated by the National Development and Reform Commission (the “NDRC”) on 14 September 2015 which came into effect on the same day, China State Construction Engineering Corporation as the Group’s controlling shareholder has filed and registered with the NDRC and obtained a Foreign Debt pre-issuance filing certificate from the NDRC on 21 January 2021 evidencing such registration. Pursuant to the NDRC Notice, the Guarantor will file or cause to be filed with the NDRC the requisite information and documents in respect of the issuance of the Notes within the prescribed timeframe in accordance with the NDRC Notice and any implementation rules, regulations, certificates, circulars, notices or approvals in connection therewith issued by the NDRC from time to time (the “NDRC Post-Issuance Filing”) and comply with all applicable PRC laws and regulations in relation to the NDRC Post-Issuance Filing.

The Notes are expected to be rated “Baa2” by Moody’s Investors Service, Inc. (“Moody’s”) and “BBB” by Fitch Ratings (“Fitch”). The rating does not constitute a recommendation to buy, sell or hold the Notes and may be subject to suspension, reduction or withdrawal at any time by Moody’s or Fitch. A suspension, reduction or withdrawal of the rating assigned to the Notes may adversely affect the market price of the Notes.

See “Risk Factors” beginning on page 15 for a discussion of certain factors to be considered in connection with an investment in the Notes.

The Notes and the Guarantee have not been and will not be registered under the United States Securities Act of 1933, as amended (the “Securities Act”) and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (defined in Regulation S under the Securities Act (“Regulation S”)) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. For a description of these and certain further restrictions on offers and sales of the Notes and the distribution of this Offering Circular, see “Subscription and Sale” below.

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

UK MiFIR Product Governance/Professional investors and ECPs only target market – Solely for the purposes of each manufacturer’s product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is only eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook, and professional clients, as defined in Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a “distributor”) should take into consideration the manufacturer’s target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the “UK MiFIR Product Governance Rules”) is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer’s target market assessment) and determining appropriate distribution channels.

PRIIPs REGULATION – PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (the “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”); (ii) a customer within the meaning of Directive (EU) 2016/97 (the “Insurance Distribution Directive”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (the “Prospectus Regulation”). Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the “PRIIPs Regulation”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

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

The Notes will initially be evidenced by a global certificate (the “Global Certificate”) in registered form, which will be registered in the name of a nominee of, and shall be deposited on or about 9 February 2021 (the “Issue Date”) with a common depository on behalf of, Euroclear Bank SA/NV (“Euroclear”) and Clearstream Banking S.A. (“Clearstream”). Beneficial interests in the Global Certificate will be shown on, and transfer thereof will be effected only through, records maintained by Euroclear and Clearstream. Except as described herein, individual certificates for Notes will not be issued in exchange for interests in the Global Certificate. See “The Global Certificate”.

Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers

BOC International

China International
Capital Corporation

CLSA

DBS Bank Ltd.

Mizuho Securities

Joint Bookrunners and Joint Lead Managers

BOCOM International

China Construction
Bank (Asia)

CMBC Capital

ICBC International

Shanghai Pudong
Development Bank
Hong Kong Branch

SMBC Nikko

The date of this Offering Circular is 2 February 2021

NOTICE TO INVESTORS

This Offering Circular includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Issuer and the Guarantor. The Issuer and the Guarantor accept full responsibility for the accuracy of the information contained in this document and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading. If investors are in any doubt about any of the contents of this Offering Circular, they should obtain independent professional advice.

Hong Kong Exchanges and Clearing Limited and the Hong Kong Stock Exchange take no responsibility for the contents of this Offering Circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Offering Circular. Listing of the Notes on the Hong Kong Stock Exchange is not to be taken as an indication of the merits of the Issuer, the Guarantor, the Group, the Notes or the Guarantee. In making an investment decision, investors must rely on their own examination of the Issuer, the Guarantor, the Group and the Terms and Conditions of the Notes, including the merits and risks involved. The Notes have not been approved or recommended by any regulatory authority in any jurisdiction. Furthermore, no such regulatory authority has passed upon or endorsed the merits of the offering or confirmed the accuracy or determined the adequacy of this Offering Circular.

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

Each person receiving this Offering Circular acknowledges that such person has not relied on the joint lead managers named in the section entitled “*Subscription and Sale*” (each, a “**Joint Lead Manager**”), the Trustee, the Agents (each defined in Terms and Conditions of the Notes) or any person who controls any of them or any of their respective affiliates, directors, employees, agents, representatives, officers or advisers in connection with its investigation of the accuracy of such information or its investment decision.

No person has been or is authorised to give any information or to make any representation not contained in this Offering Circular and any information or representation not so contained must not be relied upon as having been authorised by or on behalf of the Issuer, the Guarantor, the Joint Lead Managers, the Trustee, the Agents or any person who controls any of them or any of their respective affiliates, directors, employees, agents, representatives, officers or advisers. The delivery of this Offering Circular at any time does not imply that the information contained herein is correct as at any time subsequent to its date. This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Issuer, the Guarantor, any of the Joint Lead Managers, the Trustee or the Agents or any person who controls any of them or any of their respective affiliates, directors, employees, agents, representatives, officers or advisers to subscribe for or purchase, any of the Notes. The distribution of this Offering Circular and the offering of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer, the Guarantor,

the Joint Lead Managers, the Trustee and the Agents to inform themselves about and to observe any such restrictions. Distribution of this Offering Circular to any person other than the recipient is prohibited. For a description of certain further restrictions on offers and sales of Notes and the distribution of this Offering Circular, see “*Subscription and Sale*”.

No representation or warranty, express or implied, is made or given by any of the Joint Lead Managers, the Trustee, the Agents or any person who controls any of them or any of their respective affiliates, directors, employees, agents, representatives, officers or advisers as to the accuracy, completeness or sufficiency of the information contained in this Offering Circular, and nothing contained in this Offering Circular is, or shall be relied upon as, a promise, representation or warranty by any of the Joint Lead Managers, the Trustee, the Agents or any person who controls any of them or any of their respective affiliates, directors, employees, agents, representatives, officers or advisers. This Offering Circular is not intended to provide the basis of any credit or other evaluation nor should it be considered as a recommendation by either the Issuer, the Guarantor, any of the Joint Lead Managers, the Trustee or the Agents or any person who controls any of them or any of their respective affiliates, directors, employees, agents, representatives, officers or advisers that any recipient of this Offering Circular should purchase the Notes. To the fullest extent permitted by law, the Joint Lead Managers, the Trustee and the Agents or any person who controls any of them or any of their respective affiliates, directors, employees, agents, representatives, officers or advisers do not accept any responsibility for the contents of this Offering Circular. Each of the Joint Lead Managers, the Trustee and the Agents or any person who controls any of them or any of their respective affiliates, directors, employees, agents, representatives, officers or advisers accordingly disclaims all and any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of this Offering Circular or any statement herein. None of the Joint Lead Managers, the Trustee or any Agent or any person who controls any of them or any of their respective affiliates, directors, employees, agents, representatives, officers or advisers undertakes to review the financial condition or affairs of the Issuer, the Guarantor or the Group after the date of this Offering Circular nor to advise any investor or potential investor in the Notes of any information coming to the attention of the Joint Lead Managers, the Trustee or any Agent or any person who controls any of them or any of their respective affiliates, directors, employees, agents, representatives, officers or advisers. None of the Joint Lead Managers, the Trustee or the Agents or any person who controls any of them or any of their respective affiliates, directors, employees, agents, representatives, officers or advisers have independently verified any of the information contained in this Offering Circular or can give any assurance that this information is accurate, truthful or complete. Each investor contemplating purchasing the Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer and the Guarantor. Each potential purchaser of the Notes should determine for itself the relevance of the information contained in this Offering Circular and its purchase of the Notes should be based upon such investigations with its own tax, legal and business advisors as it deems necessary.

This Offering Circular summarises certain material documents and other information, and the Issuer, the Guarantor and the Joint Lead Managers refer the recipient of this Offering Circular to them for a more complete understanding of what is contained in this Offering Circular. In making an investment decision, the prospective investor must rely on its own judgement and examination of the Issuer and the Guarantor and the Terms and Conditions of the Notes, including the merits and risks involved. See “*Risk Factors*” for a discussion of certain factors to be considered in connection with an investment in the Notes. None of the Issuer, the Guarantor, the Joint Lead Managers, the Trustee or the Agents or any person who controls any of them or any of their respective affiliates, directors, employees, agents, representatives, officers or advisers is making any representation regarding the legality of an investment in the Notes under any law or regulation. The recipient of this Offering Circular should not consider any information in this Offering Circular to be legal, business or tax advice.

IN CONNECTION WITH THE ISSUE OF THE NOTES, ANY OF THE JOINT LEAD MANAGERS APPOINTED AND ACTING IN THE CAPACITY OF A STABILISATION MANAGER (THE “**STABILISATION MANAGER**”) OR ANY PERSON ACTING ON ITS BEHALF MAY OVER-ALLOT THE NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISATION MANAGER (OR ANY PERSON ACTING ON BEHALF OF THE STABILISATION MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE NOTES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME AND MUST BE BROUGHT TO AN END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE NOTES. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY ANY STABILISATION MANAGER (OR ANY PERSON ACTING ON BEHALF OF THE STABILISATION MANAGER) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

None of the Issuer, the Guarantor, the Joint Lead Managers, the Trustee, the Agents or any person who controls any of them or any of their respective affiliates, directors, employees, agents, representatives, officers or advisers makes any representation to any offeree or purchaser of the Notes offered hereby regarding the legality of any investment by such offeree or purchaser under applicable legal investment or similar laws. Each prospective purchaser of the Notes should consult with its own advisers as to legal, tax, business, financial and related aspects of a purchase of the Notes.

The distribution of this Offering Circular and the offer and sale of the Notes may, in certain jurisdictions, be restricted by law. Each purchaser of the Notes must comply with all applicable laws and regulations in force in each jurisdiction in which it purchases, offers or sells the Notes or possesses or distributes this Offering Circular, and must obtain any consent, approval or permission required for the purchase, offer or sale by it of the Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes purchases, offers or sales. There are restrictions on the offer and sale of the Notes, and the circulation of documents relating thereto, in certain jurisdictions, including the United States, the United Kingdom, Hong Kong, the PRC, the Cayman Islands, Japan and Singapore and to persons connected therewith. See “*Subscription and Sale*”.

The Notes are expected to be assigned a rating of “Baa2” by Moody’s and “BBB” by Fitch. A rating is not a recommendation to buy, sell or hold securities, does not address the likelihood or timing of prepayment and may be subject to revision, qualification, suspension or withdrawal at any time by the assigning rating organisation. A revision, qualification, suspension or withdrawal of any rating assigned to the Notes may adversely affect the market price of the Notes.

Investors should contact the Joint Lead Managers with any questions about this offering or if they require additional information to verify the information contained in this Offering Circular.

Singapore SFA Product Classification: In connection with Section 309B of the SFA and the CMP Regulations 2018, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are ‘prescribed capital markets products’ (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

UK MiFIR PRODUCT GOVERNANCE/Professional investors and ECPs only target market – Solely for the purposes of each manufacturer’s product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is only eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook, and professional

clients, as defined in Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. A distributor should take into consideration the manufacturer's target market assessment; however, a distributor subject to the UK MiFIR Product Governance Rules is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer's target market assessment) and determining appropriate distribution channels.

PRIIPs REGULATION – PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; (ii) a customer within the meaning of the Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Regulation. Consequently no key information document 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 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. 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 EUWA; (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA; or (iii) not a qualified investor as defined in Article 2 of the UK Prospectus Regulation. Consequently no key information document required by 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.

FORWARD-LOOKING STATEMENTS

There are statements in this Offering Circular which contain words and phrases such as “aim”, “anticipate”, “assume”, “believe”, “contemplate”, “continue”, “estimate”, “expect”, “future”, “goal”, “intend”, “may”, “objective”, “plan”, “predict”, “positioned”, “project”, “risk”, “seek to”, “shall”, “should”, “will likely result”, “will pursue”, “plan” and words and terms of similar substance used in connection with any discussion of future operating or financial performance or the Group’s expectations, plans, projections or business prospects identify forward-looking statements. In particular, the statements under the headings “*Risk Factors*” and “*The Group*” regarding the Group’s financial condition and other future events or prospects are forward-looking statements. All forward-looking statements are management’s present expectations of future events and are subject to a number of factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements.

In addition to the risks related to the business of the Group discussed under “*Risk Factors*”, other factors could cause actual results to differ materially from those described in the forward-looking statements. These factors include, but are not limited to:

- the Group’s property development plans;
- the amount and nature of, and potential for, future development of the Group’s business;
- various business opportunities that the Group may pursue;
- changes to regulatory and operating conditions in, and the general regulatory environment of, the industry and markets in which the Group operates;
- the performance and future development of the property market in the areas in the PRC in which the Group may engage in property development;
- changes in political, regulatory, economic, legal and social conditions in the PRC, including the specific policies of the PRC government and the local authorities in the regions in which the Group operates, which affect land supply, availability and cost of financing, pre-sales, pricing and volume of the Group’s property development projects;
- changes in competitive conditions and the Group’s ability to compete under these conditions;
- availability and cost of bank loans and other forms of financing;
- significant delay in obtaining the occupation permits, proper legal titles or approvals for the Group’s properties under development or held for future development;
- the defaults in repayment by the Group’s purchasers of mortgage loans guaranteed by the Group;
- the performance of the obligations and undertakings of the Group’s independent contractors under various construction, building, interior decoration and installation contracts;
- the interpretation and implementation of the existing rules and regulations relating to the Land Appreciation Tax (“**LAT**”) and any future changes to LAT;
- changes in currency exchange rates; and
- other factors beyond the Group’s control.

By their nature, certain disclosures relating to these and other risks are only estimates and could be materially different from what actually occurs in the future. As a result, actual future gains, losses or impact on the Group's income or results of operations could materially differ from those that have been estimated. For example, revenue could decrease, costs could increase, capital costs could increase, capital investment could be delayed and anticipated improvements in performance might not be fully realised.

Investors are cautioned not to place undue reliance on the forward-looking statements, which speak only as at the date of this Offering Circular. Except as required by law, the Group is not under any obligation, and expressly disclaims any obligation, to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise.

All subsequent forward-looking statements attributable to the Group or any person acting on their behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this Offering Circular.

PRESENTATION OF FINANCIAL INFORMATION

Financial Data

The Group's consolidated financial statements are prepared in accordance with HKFRS, which differ in certain respects from generally accepted accounting principles in other countries, including IFRS, which differences might be material to the financial information presented herein. Potential investors should consult their own professional advisors for an understanding of the difference between HKFRS, IFRS and accounting principles in certain other jurisdictions, and how those differences might affect the financial information presented herein. In making an investment decision, investors must rely upon their own independent examination of the Group, the terms of this offering and the Guarantor's recent financial information. Unless specified or the context otherwise requires, all financial information in this Offering Circular is presented on a consolidated basis.

This Offering Circular contains the consolidated financial information of the Group as at and for the years ended 31 December 2017, 2018 and 2019, which has been extracted from the audited consolidated financial statements of the Group as at and for the years ended 31 December 2018 (the "2018 Financial Statements") and 2019 (the "2019 Financial Statements", together with the 2018 Financial Statements, the "Financial Statements") included elsewhere in this Offering Circular. The audited consolidated financial statements of the Group were prepared in accordance with HKFRS.

In 2019, the Group changed the presentation currency of the consolidated financial statements from Hong Kong dollars to Renminbi. For further details regarding the change of presentation currency, see note 3.3 to the 2019 Financial Statements for details. As a result, the financial information in the 2018 Financial Statements which were presented in Hong Kong dollars may not be directly comparable to the financial information in the 2019 Financial Statements which were presented in Renminbi.

For details of changes in general accounting policies, please refer to note 2.1 to the Financial Statements.

Exchange Rate Information

This Offering Circular contains a translation of certain Renminbi amounts into US dollars at specified rates solely for the convenience of the reader. Unless otherwise specified, where financial information in relation to the Issuer or the Guarantor has been translated into US dollars, it has been so translated, for reference only, at the rate of RMB6.9618 per US\$1.00, which was the exchange rate set forth in the H.10 weekly statistical release of the Board of Governors of the Federal Reserve System of the United States for Renminbi on 31 December 2019. No representation is made that the Renminbi amounts referred to in this Offering Circular could have been or could be converted into US dollars at any particular rate or at all.

Rounding

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

Non-GAAP Financial Measures

This Offering Circular contains certain information regarding the Group's EBITDA. EBITDA for any period consists of profit for the year before interest expense and other finance costs, tax, depreciation and amortisation, excluding changes in fair value of investment properties and a derivative financial instrument, gain on bargain purchase, gain on disposal of subsidiaries and investment properties, write-off of available-for-sale financial assets, share of results of associates and joint ventures and other income and gains except interest income. EBITDA is not a standard measure under HKFRS.

EBITDA is a widely used financial indicator of a company's ability to service and incur debt. EBITDA should not be considered in isolation or construed as an alternative to cash flows, profit for the year or any other measure of financial performance or as an indicator of the Group's operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. In evaluating EBITDA, investors should consider, among other things, the components of EBITDA such as revenue and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. The Group has included EBITDA because it believes that it is a useful supplement to cash flow data as a measure of the Group's performance and its 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 the Group's EBITDA to EBITDA presented by other companies because not all companies use the same definition.

CERTAIN DEFINED TERMS AND CONVENTIONS

In this Offering Circular, unless otherwise specified or the context otherwise requires:

- “CSC” refers to China State Construction International Holdings Limited 中國建築國際集團有限公司;
- “CSCD” refers to China State Construction Development Holdings Limited 中國建築興業集團有限公司 (formerly known as Far East Global Group Limited);
- “CSCEC” refers to China State Construction Engineering Corporation 中國建築集團有限公司;
- “CSCECL” refers to China State Construction Engineering Corporation Limited 中國建築股份有限公司;
- “COHL” refers to China Overseas Holdings Limited 中國海外集團有限公司;
- “COLI” refers to China Overseas Land & Investment Limited 中國海外發展有限公司;
- “COPH” refers to China Overseas Property Holdings Limited 中海物業集團有限公司;
- the “Issuer” refers to China Overseas Grand Oceans Finance IV (Cayman) Limited 中國海外宏洋財務IV(開曼)有限公司;
- the “Guarantor” or the “Company” refers to China Overseas Grand Oceans Group Limited 中國海外宏洋集團有限公司;
- the “Group” refers to the Guarantor and its subsidiaries taken as a whole;
- “Hong Kong dollars”, “HK dollars” and “HK\$” refer to the lawful currency of Hong Kong;
- “RMB” and “yuan” refer to Renminbi, the lawful currency of the People’s Republic of China;
- “dollars”, “US dollars” and “US\$” refer to the legal currency of the United States of America;
- “HKAS” refers to Hong Kong Accounting Standards issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”);
- “HKFRS” refers to Hong Kong Financial Reporting Standards issued by the HKICPA;
- “IFRS” refers to International Financial Reporting Standards issued by the International Accounting Standards Board (“**IASB**”);
- “Hong Kong” refers to the Hong Kong Special Administrative Region of the People’s Republic of China;
- “Macau” refers to the Macau Special Administrative Region of the People’s Republic of China;
- “China”, and the “PRC” refer to the People’s Republic of China (excluding Hong Kong, Macau and Taiwan);
- “GFA” refers to gross floor area; and
- “sq.m.” refers to square metres.

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SUMMARY

The summary below is only intended to provide a limited overview of information described in more detail elsewhere in this Offering Circular. As it is a summary, it does not contain all of the information that may be important to investors, and terms defined elsewhere in this Offering Circular shall have the same meanings when used in this summary. Prospective investors should therefore read this Offering Circular in its entirety.

OVERVIEW

The Group is a property developer in the PRC. Its main source of revenue is from the development and sale of residential and commercial properties in the PRC. As at 31 December 2019, the Group and its joint ventures had a land bank of approximately 24.0 million sq.m. (with an attributable land bank of 21.9 million sq.m.) in 26 cities in the PRC. In addition to property development, the Group and its joint venture own investment properties which are mainly located in Beijing and Shanghai.

The Group prefers third-tier cities which are already a regional economic centre (or which have the potential to become a regional economic centre due to their close proximity to more developed cities) and which are targeting higher GDP and population growth rates and lower unemployment rates, than the national average. The Group's plan is to steadily expand in third-tier cities that it has already entered, to rank among the top three developers in those cities and to look for new investment opportunities in other third-tier cities which satisfy its selection criteria.

As at 31 December 2019, the Group is comprised of the Guarantor and over 170 subsidiaries, three associates and three joint ventures. The Issuer is a direct wholly-owned subsidiary of the Guarantor.

For the year ended 31 December 2019, the Group's consolidated revenue and net profit were RMB28,590.9 million and RMB3,497.0 million, respectively. As at 29 January 2021, the Guarantor had a market capitalisation of RMB13.6 billion. The Guarantor is a constituent of the Hang Seng Composite Index which includes Hang Seng Composite Industry Index – Properties & Construction, the Hang Seng Composite MidCap & SmallCap Index, the Hang Seng Composite SmallCap Index, the Hang Seng Stock Connect Hong Kong Index, the Hang Seng Stock Connect Hong Kong MidCap & SmallCap Index and the Hang Seng Stock Connect Hong Kong SmallCap Index.

The Guarantor is rated “Baa2” by Moody's, “BBB-” by S&P Global Ratings (“S&P”) and “BBB” by Fitch.

Competitive Strengths

The Group benefits from the following key strategies:

- The Group is a major PRC property developer supported by the well-known national brand of “China Overseas Property” (“中海地產”), focusing on the mid- to high-end real estate development primarily in third-tier cities in the PRC;
- The Group benefits from strong support from CSCEC, CSCECL, COHL and COLI;
- The Group owns a sizable, diversified and high-quality land bank;
- The Group has a proven track record and in-depth local knowledge;
- The Group's operations are scalable for further expansion; and
- The Group is financially strong and has flexible sources of funding.

Strategies

The Group's key business objective is to seek sustainable growth in revenue and profit by pursuing the following strategies:

- Continuing to focus on third-tier cities in the PRC with growth potential and promising returns;
- Continuing to leverage the strong support from COLI and its “China Overseas Property” (“中海地產”) brand;
- Expanding its land bank at reasonably low cost;
- Maintaining prudent financial management; and
- Maintaining an appropriate level of recurring income generated by its investment property portfolio to enhance long term cash flow stability and to diversify risk associated with the real estate development business.

RECENT DEVELOPMENTS

Financial Performance

On 15 September 2020, the Guarantor published its unaudited consolidated financial statements as at and for the six months ended 30 June 2020.

The unaudited consolidated financial statements as at and for the six months ended 30 June 2020 have not been audited or reviewed and should not be relied upon to provide the same quality of information associated with information that has been subject to an audit or a review nor taken as an indication of the expected financial condition and results of operations of the Guarantor for the relevant full financial year ending 31 December 2020. Potential investors should exercise caution when using such information to evaluate the Group's financial condition and results of operations.

Results

	For the six months ended 30 June	
	2019	2020
	(unaudited and re-presented) (RMB'000)	(unaudited) (RMB'000)
Revenue	11,057,486	16,109,339
Gross profit	3,875,707	5,264,815
Distribution and selling expenses	(394,380)	(553,044)
Administrative expenses	(345,815)	(475,492)
Total interest expenses	(591,138)	(725,892)
Fair value gain on reclassification of inventories of properties to investment properties	–	8,123
Profit for the period	1,632,009	2,081,390

Financial Position

	As at 30 June 2020
	(unaudited) (RMB'000)
Restricted cash and deposits	9,246,487
Cash and bank balances	17,090,019
Unutilised bank credit facilities	8,225,100
Short-term borrowings including guaranteed notes payable	15,324,828
Long-term borrowings	21,082,847

Other Financial Data

	As at and for the six months 30 June 2020
	(RMB millions, except margin and ratio data)
Other financial data	
EBITDA ⁽¹⁾	4,426
EBITDA margin (%) ⁽²⁾	27.5

Notes:

- (1) EBITDA for the period consists of profit for the period before interest expense and other finance costs, tax, depreciation and amortisation, excluding fair value gain on reclassification of inventories of properties to investment properties, share of results of associates and joint ventures and other income and gains except interest income. EBITDA is not a standard measure under HKFRS. EBITDA is a widely used financial indicator of a company's ability to service and incur debt. EBITDA should not be considered in isolation or construed as an alternative to cash flows, profit for the year or any other measure of financial performance or as an indicator of the Group's operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. In evaluating EBITDA, investors should consider, among other things, the components of EBITDA such as revenue and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. The Group has included EBITDA because it believes that it is a useful supplement to cash flow data as a measure of the Group's performance and its 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 the Group's EBITDA to EBITDA presented by other companies because not all companies use the same definition.
- (2) EBITDA margin is calculated by dividing EBITDA by revenue.

The maturities of the Group's bank and other borrowings, including guaranteed notes payable as at 30 June 2020 are set out below:

	As at 30 June 2020
	<i>RMB billions</i>
Bank and other borrowings	
Within one year	15.32
More than one year	21.08
Total bank and other borrowings	36.40

As at 30 June 2020, out of the Group's total bank and other borrowings, 56.5% were denominated in Renminbi, 33.6% were denominated in HK dollars and 9.9% were denominated in US dollars.

Property Development

For the six months ended 30 June 2020, contracted property sales of the Group and its associates and joint ventures amounted to RMB27,867.5 million, representing a 14.5% year-on-year growth compared to RMB24,332.1 million for the six months ended 30 June 2019, for an aggregated contracted area of 2,420,700 sq.m.

During the first half of 2020, the Group entered into six new cities, namely Taizhou (Jiangsu province), Zhenjiang (Jiangsu province), Langfang (Hebei province), Tangshan (Hebei province), Jinhua (Zhejiang province) and Zunyi (Guizhou province). The Group successfully acquired a total of 18 parcels of land, with a total development area of approximately 4.1 million sq.m. (attributable to the Group: 3.5 million sq.m.) in the first half of 2020. These land parcels are located in Zibo, Hefei, Huizhou, Yancheng, Lanzhou, Baotou, Xining, Jiujiang, Yinchuan, Shantou and the new cities mentioned above.

As at 30 June 2020, a total land bank of the Group and its associate in China reached approximately 26.3 million sq.m., of which, 0.1 million sq.m. was held by an associate. The land bank attributable to the Group (including the interests in an associate) was approximately 23.7 million sq.m. The Group's land bank was distributed in 33 cities in the PRC as at 30 June 2020.

The following table sets out the total land bank and attributable land bank of the Group and its associate as at 30 June 2020:

No.	City	Total GFA	Attributable GFA
		('000 sq.m.)	('000 sq.m.)
1.	Jilin	1,301.6	1,294.5
2.	Yinchuan	2,702.2	2,398.0
3.	Hefei	1,505.3	1,220.7
4.	Nanning	1,194.6	806.2
5.	Lanzhou	1,345.7	1,152.6
6.	Ganzhou	601.8	601.8
7.	Yancheng	688.3	606.8
8.	Yangzhou	1,208.9	1,208.9
9.	Nantong	822.3	556.9
10.	Changzhou	638.6	638.6
11.	Shantou	2,728.4	2,670.8
12.	Huizhou	1,607.0	1,283.7
13.	Jiujiang	2,010.8	2,010.8
14.	Huangshan	249.5	137.2
15.	Weifang	1,454.5	1,454.5
16.	Guilin	70.4	70.4
17.	Xuzhou	721.2	459.9
18.	Xining	642.4	642.4
19.	Hohhot	737.5	737.5
20.	Baotou	808.2	626.9
21.	Liuzhou	269.4	188.6
22.	Jining	528.3	528.3
23.	Quanzhou	520.5	520.5
24.	Weinan	131.4	131.4
25.	Qingyuan	180.0	180.0
26.	Shaoxing	106.6	106.6
27.	Zibo	161.2	161.2
28.	Taizhou	225.9	192.0
29.	Zhenjiang	128.6	128.6
30.	Langfang	206.2	206.2
31.	Tangshan	287.7	287.7
32.	Jinhua	213.7	213.7
33.	Zunyi	336.7	235.7
	Total	26,335.4	23,659.6

During the second half of 2020, the Group further acquired 30 parcels of land in 19 cities with total GFA of approximately 7.4 million sq.m. (attributable to the Group: 6.9 million sq.m.).

The following table shows the land parcels acquired by the Group during 2020:

No.	City	Name of Project	Attributable	Land Area	Total GFA	Attributable	Attributable
			Interest			GFA	Land premium
			(per cent.)	('000 sq.m.)	('000 sq.m.)	('000 sq.m.)	(RMB million)
1	Taizhou	Hailing District Project	85	99	226	192	905
2	Zibo	Wenchanghu District Project	100	77	161	161	241
3	Hefei	Jingkai District Project	60	106	294	176	1,205
4	Huizhou	Huicheng District Project #1	60	123	498	299	1,220
5	Yancheng	Yannan Gaoxin District Project	35	34	125	44	207
6	Langfang	Anci District Project	100	75	206	206	746
7	Lanzhou	Qilihe District project	100	13	85	85	184
8	Baotou	Kundulun District Project	100	79	230	230	534
9	Xining	Beichuan New District Project	100	86	268	268	1,143
10	Jiujiang	Xunyang District Project	100	10	12	12	51
11	Tangshan	Lunan District Project	100	158	288	288	2,692
12	Hefei	Xinzhan District Project	100	61	128	128	671
13	Yinchuan	Jinfeng District Project #1	100	121	335	335	772

No.	City	Name of Project	Attributable	Land Area	Total GFA	Attributable	Attributable
			Interest	(<i>'000 sq.m.</i>)	(<i>'000 sq.m.</i>)	GFA	Land premium
			(<i>per cent.</i>)			(<i>'000 sq.m.</i>)	(<i>RMB million</i>)
14	Shantou	Longhu District Project #1	100	66	286	286	1,248
15	Jinhua	Wucheng District Project	100	76	214	214	2,398
16	Huizhou	Huicheng District Project #2	60	78	310	186	786
17	Zunyi	Xinpu New District Project	70	114	337	236	275
18	Zhenjiang	Danyang City Huanan Gaoxin District Project #1	100	49	129	129	513
19	Hohhot	Saihan District Project #1	100	39	122	122	439
20	Hohhot	Xincheng District Project #1	100	75	187	187	652
21	Zunyi	Huichuan District Project	80	40	117	94	332
22	Yancheng	Yandu District Project	100	103	355	355	1,679
23	Hohhot	Xincheng District Project #2	100	48	120	120	457
24	Hohhot	Saihan District Project #2	100	56	136	136	782
25	Yinchuan	Jinfeng District Project #2	100	94	212	212	1,155
26	Yinchuan	Jinfeng District Project #3	100	24	66	66	260
27	Hefei	Baohu District Project	100	48	155	155	575
28	Tianshui	Qinzhou District Project	100	63	226	226	1,215
29	Tangshan	Lubei District Project	100	61	191	191	1,701
30	Lanzhou	Chengguan District Project	100	82	372	372	1,807
31	Shantou	Longhu District Project #2	100	105	569	569	1,782
32	Weifang	Fangzi District Project #1	100	92	256	256	359
33	Weifang	Fangzi District Project #2	100	51	131	131	197
34	Jilin	Fengman District Project #1	100	222	610	610	1,424
35	Jilin	Fengman District Project #2	100	47	136	136	292
36	Zhuzhou	Tianyuan District Project #1	100	51	242	242	427
37	Zhuzhou	Tianyuan District Project #2	100	30	129	129	218
38	Zhuzhou	Tianyuan District Project #3	100	62	266	266	439
39	Zhuzhou	Tianyuan District Project #4	100	90	247	247	677
40	Zhuzhou	Tianyuan District Project #5	100	75	299	299	557
41	Zhuzhou	Tianyuan District Project #6	100	112	303	303	683
42	Changzhou	Jintan District Project	100	115	343	343	1,824
43	Zhenjiang	Danyang City Huanan Gaoxin District Project #2	100	70	181	181	743
44	Huizhou	Zhongkai District Project	100	45	185	185	643
45	Ganzhou	Ganxian District Project	100	49	132	132	393
46	Zhanjiang	Xiashan District Project	100	66	271	271	1,060
47	Linyi	Luozhuang District Project	100	58	189	189	619
48	Taizhou	Guangling District Project	25	308	689	170	1,031
				3,806	11,569	10,370	40,213

Note:

- (1) Project stake has been adjusted and the land will be developed in form of cooperation project.
- (2) Project stake will be adjusted subject to the completion of filing with the relevant authorities in the PRC and the land will be developed in form of cooperation project. For details, please refer to the announcement of the Company dated 19 November 2020 and the circular of the Company dated 10 December 2020.
- (3) The above table does not include the joint development project in respect of the land situated in Zibo City as disclosed in the announcement of the Company dated 14 October 2020, which is subject to the completion of filing with the relevant authorities in the PRC.

The COVID-19 Pandemic

The COVID-19 pandemic that began at the end of 2019 has affected millions of individuals and caused a significant decline in the overall global and PRC economies. The grave impact has adversely affected the development of the PRC property market, which suffered a critical setback during the first half of 2020, especially in the first quarter, as both construction activities and sales activities were required to be suspended in order to contain the spread of the COVID-19 outbreak. In particular, property sales and the construction schedule of our projects were disturbed. However, the PRC government has taken various measures to manage the COVID-19 situation and to stabilise the economy in the first half of 2020. Meanwhile, the Group has also implemented strict pandemic prevention and controlling measures in its properties and communities in the first half of 2020, which have effectively

mitigated the negative impacts arising from the COVID-19 pandemic. Starting from the second quarter of 2020, sales momentum has started to pick up and construction progress is also in the course of catching up. As a result, we achieved higher contracted property sales during the first half of 2020 as compared to the corresponding period in 2019.

It is difficult to predict how long the adverse impact of COVID-19 will persist and the extent to which the Group may be affected. We cannot assure you that our business, financial condition and results of operations will not be materially and adversely affected. See “*Risk Factors – Risks Relating to the PRC – Natural disasters, acts of God, or recurrence of severe acute respiratory syndrome, or SARS, avian influenza or another widespread public health problem could adversely affect the Group’s business, financial condition and results of operations*”.

SELECTED CONSOLIDATED FINANCIAL INFORMATION AND OPERATING DATA

The following table sets forth the Guarantor's selected consolidated financial information. The selected consolidated financial information as at and for the years ended 31 December 2017, 2018 and 2019 (other than the 2017 comparative figures presented in Renminbi) has been derived from the Financial Statements, including the notes thereto, included elsewhere in this Offering Circular.

The Financial Statements were prepared in accordance with HKFRS. The presentation currency of the consolidated financial statements was changed from Hong Kong dollars to Renminbi in the year ended 31 December 2019. The 2018 comparative figures in the 2019 Financial Statements have been restated accordingly. For further information, see note 3.3 to the 2019 Financial Statements included elsewhere in this Offering Circular. As a result, the financial information in the 2018 Financial Statements which were presented in Hong Kong dollars may not be directly comparable to the financial information in the 2019 Financial Statements which were presented in Renminbi. The following table has included 2017 comparative figures presented in Renminbi, translated at the rate indicated below, for reference only. Potential investors should exercise caution when using such information to evaluate the Group's financial condition and results of operations.

	For the year ended 31 December				
	2017	2017	2018	2018	2019
	(HK\$'000)	(unaudited) ⁽¹⁾ (RMB'000)	(HK\$'000)	(re-presented) (RMB'000)	(RMB'000)
Consolidated Income Statement					
Data					
Revenue	20,277,831	17,509,568	25,571,306	21,524,668	28,590,883
Cost of sales and services provided	(16,209,323)	(13,996,479)	(18,133,573)	(15,263,950)	(19,063,036)
Gross profit	4,068,508	3,513,089	7,437,733	6,260,718	9,527,847
Other income	198,629	171,513	437,757	368,482	390,937
Distribution and selling expenses	(675,762)	(583,509)	(841,138)	(708,029)	(1,147,953)
Administrative expenses	(610,130)	(526,837)	(722,233)	(607,940)	(793,301)
Other operating expenses	(7,704)	(6,652)	(160,334)	(134,961)	(31,917)
Other gains or losses					
Fair value gain on					
reclassification of inventories					
of properties to investment					
properties	-	-	-	-	72,179
Fair value gain on investment					
properties	191,830	165,642	-	-	-
Gain on disposal of investment					
properties	542	468	2,173	1,829	2,355
Change in fair value of a					
derivative financial instrument	1,974	1,704	2,493	2,098	(3,927)
Write-off of available-for-sale					
financial assets	(535)	(462)	-	-	-
Gain on bargain purchase	-	-	-	-	4
Operating profit	3,167,352	2,734,956	6,156,451	5,182,197	8,016,224
Finance costs	(32,500)	(28,063)	(92,266)	(77,665)	(33,843)
Share of results of associates	57,153	49,350	12,239	10,302	22,657
Share of results of joint ventures	(9,854)	(8,509)	266,127	224,013	290,534
Profit before income tax	3,182,151	2,747,734	6,342,551	5,338,847	8,295,572
Income tax expense	(1,920,417)	(1,658,248)	(3,841,015)	(3,233,178)	(4,798,611)
Profit for the year	1,261,734	1,089,486	2,501,536	2,105,669	3,496,961
Profit for the year attributable to:					
Owners of the Guarantor	1,271,398	1,097,831	2,427,326	2,043,204	3,329,681
Non-controlling interests	(9,664)	(8,345)	74,210	62,465	167,280
	<u>1,261,734</u>	<u>1,089,486</u>	<u>2,501,536</u>	<u>2,105,669</u>	<u>3,496,961</u>

(1) Translated at the exchange rate of HK\$1.1581 to RMB1.00, being the average closing middle rate for the year ended 31 December 2017 published on the BOC Exchange Rate website by Bank of China, for reference only.

	As at 31 December				
	2017	2017	2018	2018	2019
	(HK\$'000)	(unaudited) ⁽¹⁾ (RMB'000)	(HK\$'000)	(re-presented) (RMB'000)	(RMB'000)
Consolidated Statement of Financial Position Data					
Non-current assets					
Investment properties	2,835,203	2,369,977	2,667,576	2,337,314	2,744,787
Property, plant and equipment	1,187,437	992,591	1,164,785	1,020,577	1,090,024
Right-of-use assets	–	–	–	–	348,544
Prepaid lease rental on land	325,367	271,978	301,287	263,986	–
Intangible assets	8,117	6,785	3,319	2,908	–
Interests in associates	135,907	113,606	26,983	23,642	46,299
Interests in joint ventures	449,129	375,432	697,439	611,092	901,626
Amount due from a joint venture	305,057	255,000	–	–	–
Financial assets at fair value through other comprehensive income	–	–	1,141	1,000	1,000
Available-for-sale financial assets	1,196	1,000	–	–	–
A derivative financial instrument	1,974	1,650	4,467	3,914	–
Deferred tax assets	345,958	289,190	184,150	161,351	609,534
	<u>5,595,345</u>	<u>4,677,209</u>	<u>5,051,147</u>	<u>4,425,784</u>	<u>5,741,814</u>
Current assets					
Inventories of properties	54,414,394	45,485,576	67,682,662	59,303,130	86,397,320
Other inventories	2,060	1,722	1,861	1,631	4,269
Contract assets	–	–	15,986	14,007	49,732
Trade and other receivables, prepayments and deposits	9,795,746	8,188,369	10,151,731	8,894,882	11,867,467
Prepaid lease rental on land	9,562	7,993	9,122	7,993	–
Amounts due from associates	68,094	56,920	68,108	59,676	60,436
Amounts due from joint ventures	–	–	291,032	255,000	479
Amounts due from non-controlling interests	353,678	295,643	465,936	408,250	581,245
Amount due from a related company	–	–	–	–	171,543
Tax prepaid	1,382,614	1,155,742	1,267,506	1,110,581	1,796,235
Restricted cash and deposits	7,553,007	6,313,640	7,902,629	6,924,235	10,671,299
Cash and bank balances	16,149,246	13,499,328	25,361,554	22,221,637	16,755,435
	<u>89,728,401</u>	<u>75,004,933</u>	<u>113,218,127</u>	<u>99,201,022</u>	<u>128,355,460</u>
Total assets	<u>95,323,746</u>	<u>79,682,142</u>	<u>118,269,274</u>	<u>103,626,806</u>	<u>134,097,274</u>
Current liabilities					
Trade and other payables	9,639,438	8,057,710	10,821,294	9,481,552	11,989,788
Contract liabilities	–	–	43,282,504	37,923,862	54,618,728
Sales deposits received	30,820,778	25,763,419	–	–	–
Amounts due to associates	176,876	147,853	26,631	23,334	63,823
Amounts due to joint ventures	1,234,203	1,031,683	1,345,871	1,179,244	815,126
Amounts due to non-controlling interests	613,424	512,768	2,333,114	2,044,260	5,082,077
Amounts due to related companies	4,852,569	4,056,314	346,229	303,364	379,230
Lease liabilities	–	–	–	–	11,570
Guaranteed notes payable	–	–	3,211,357	2,813,771	–
Taxation liabilities	2,276,077	1,902,597	3,463,225	3,034,456	5,940,199
Borrowings	4,911,049	4,105,198	6,260,146	5,485,101	11,656,478
	<u>54,524,414</u>	<u>45,577,542</u>	<u>71,090,371</u>	<u>62,288,944</u>	<u>90,557,019</u>

(1) Translated at the exchange rate of HK\$1.1963 to RMB1.00, being the closing middle rate as at 31 December 2017 published on the BOC Exchange Rate website by Bank of China, for reference only.

	As at 31 December				
	2017	2017	2018	2018	2019
	(HK\$'000)	(unaudited) ⁽¹⁾ (RMB'000)	(HK\$'000)	(re-presented) (RMB'000)	(RMB'000)
Non-current liabilities					
Borrowings	19,300,789	16,133,737	19,271,087	16,885,207	15,611,683
Lease liabilities	–	–	–	–	24,588
Guaranteed notes payable	3,159,180	2,640,793	3,924,376	3,438,514	3,521,449
Amount due to a related company	89,754	75,026	85,627	75,026	–
Deferred tax liabilities	3,786,595	3,165,255	3,619,231	3,171,148	2,869,227
	<u>26,336,318</u>	<u>22,014,811</u>	<u>26,900,321</u>	<u>23,569,895</u>	<u>22,026,947</u>
Total liabilities.	<u>80,860,732</u>	<u>67,592,353</u>	<u>97,990,692</u>	<u>85,858,839</u>	<u>112,583,966</u>
Net assets	<u>14,463,014</u>	<u>12,089,789</u>	<u>20,278,582</u>	<u>17,767,967</u>	<u>21,513,308</u>
Capital and reserves					
Share capital	2,144,018	1,792,208	6,751,682	5,579,100	5,579,100
Reserves	<u>11,533,124</u>	<u>9,640,662</u>	<u>12,696,497</u>	<u>11,461,276</u>	<u>13,966,227</u>
Equity attributable to owners of the Guarantor	13,677,142	11,432,870	19,448,179	17,040,376	19,545,327
Non-controlling interests	<u>785,872</u>	<u>656,919</u>	<u>830,403</u>	<u>727,591</u>	<u>1,967,981</u>
Total equity.	<u>14,463,014</u>	<u>12,089,789</u>	<u>20,278,582</u>	<u>17,767,967</u>	<u>21,513,308</u>

(1) Translated at the exchange rate of HK\$1.1963 to RMB1.00, being the closing middle rate as at 31 December 2017 published on the BOC Exchange Rate website by Bank of China, for reference only.

Other Financial Data

	As at and for the year ended 31 December				
	2017	2017	2018	2018	2019
	(HK\$ millions, except margin and ratio data)	(RMB millions, except margin and ratio data)	(HK\$ millions, except margin and ratio data)	(RMB millions, except margin and ratio data)	(RMB millions, except margin and ratio data)
Other financial data					
EBITDA ⁽¹⁾	3,008	2,597	6,164	5,188	7,972
EBITDA margin (%) ⁽²⁾	14.8	14.8	24.1	24.1	27.9
Net debt to total equity ratio (%) ⁽³⁾	25.4	25.4	N/A	N/A	15.6

Notes:

- (1) EBITDA for any period consists of profit for the year before interest expense and other finance costs, tax, depreciation and amortisation, excluding changes in fair value of investment properties and a derivative financial instrument, gain on bargain purchase, gain on disposal of subsidiaries and investment properties, write-off of available-for-sale financial assets, share of results of associates and joint ventures and other income and gains except interest income. EBITDA is not a standard measure under HKFRS. EBITDA is a widely used financial indicator of a company's ability to service and incur debt. EBITDA should not be considered in isolation or construed as an alternative to cash flows, profit for the year or any other measure of financial performance or as an indicator of the Group's operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. In evaluating EBITDA, investors should consider, among other things, the components of EBITDA such as revenue and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. The Group has included EBITDA because it believes that it is a useful supplement to cash flow data as a measure of the Group's performance and its 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 the Group's EBITDA to EBITDA presented by other companies because not all companies use the same definition.
- (2) EBITDA margin is calculated by dividing EBITDA by revenue.
- (3) Net debt comprises the total carrying amount of borrowings including guaranteed notes payable determined in accordance with HKFRS, net of cash and bank balances and restricted cash and deposits. Total equity comprises equity attributable to owners of the Guarantor and non-controlling interests.

THE OFFERING

Issuer	China Overseas Grand Oceans Finance IV (Cayman) Limited (中國海外宏洋財務IV(開曼)有限公司).
Guarantor	China Overseas Grand Oceans Group Limited (中國海外宏洋集團有限公司).
Issue	US\$512,000,000 2.45 per cent. Guaranteed Notes due 2026 (the “Notes”).
Guarantee	The Guarantor has unconditionally and irrevocably guaranteed the payment of the principal, Early Redemption Amount (as defined in the Terms and Conditions of the Notes) and interest in respect of the Notes and all other moneys expressed to be payable by the Issuer under or pursuant to the Notes and the Trust Deed (as defined below).
Issue Price	99.916 per cent.
Closing Date	9 February 2021.
Maturity Date	9 February 2026.
The Offering	The Notes and the Guarantee are being offered and sold outside of the United States to non-U.S. persons in reliance on Regulation S. See “ <i>Subscription and Sale</i> ”.
Interest and Interest Payment Dates	The Notes will bear interest on their outstanding principal amount from and including the Issue Date at the rate of 2.45 per cent. per annum, payable semi-annually in arrear in equal instalments on 9 February and 9 August in each year, commencing on 9 August 2021.
Status of the Notes and the Guarantee	<p>The Notes are direct, unconditional, unsubordinated and (subject to the provisions of Condition 5 of the Terms and Conditions of the Notes) unsecured obligations of the Issuer and (subject as stated above) rank and will rank <i>pari passu</i>, without any preference among themselves, with all other outstanding unsecured and unsubordinated obligations of the Issuer, present and future, but only to the extent permitted by applicable laws relating to creditors’ rights.</p> <p>The obligations of the Guarantor under the Guarantee constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 5 of the Terms and Conditions of the Notes) unsecured obligations of the Guarantor and (subject as stated above) rank and will rank <i>pari passu</i> with all other outstanding unsecured and unsubordinated obligations of the Guarantor, present and future, but only to the extent permitted by applicable laws relating to creditors’ rights.</p>

Further Issues The Issuer is at liberty from time to time without the consent of the Noteholders to create and issue further securities either (a) having the same terms and conditions as the Notes in all respects (or in all respects save for the issue date, the first payment of interest thereon and the timing for complying with the requirements set out in the Terms and Conditions of the Notes in relation to NDRC Post-Issuance Filing) and so that the same shall be consolidated and form a single series with the Notes or (b) upon such terms as to ranking, interest, conversion, redemption and otherwise as the Issuer may determine at the time of issue. See *“Terms and Conditions of the Notes – Further Issues”*.

Negative Pledge So long as any Note remains outstanding (as defined in the Trust Deed), the Issuer and the Guarantor will not, and the Guarantor will procure that none of its other Subsidiaries (as defined in the Terms and Conditions of the Notes) (except any Listed Subsidiaries as defined in the Terms and Conditions of the Notes) will, create or permit to subsist any Security (as defined in the Terms and Conditions of the Notes) upon the whole or any part of its undertaking, assets or revenues present or future to secure the repayment or payment of principal, premium or interest of or on any Relevant Indebtedness (as defined in the Terms and Conditions of the Notes), or to secure any guarantee of or indemnity given in respect of the repayment or payment of principal, premium or interest of or on any Relevant Indebtedness (as defined in the Terms and Conditions of the Notes) unless, at the same time or prior thereto, the Issuer’s obligations under the Notes or, as the case may be, the Guarantor’s obligations under the Guarantee (a) are secured equally and ratably therewith or benefit from a guarantee or indemnity in substantially identical terms thereto, as the case may be, or (b) have the benefit of such other security, guarantee, indemnity or other arrangement as shall be approved by an Extraordinary Resolution (as defined in the Terms and Conditions of the Notes) of the Noteholders. See *“Terms and Conditions of the Notes – Covenants – Negative Pledge”*.

Taxation All payments in respect of the Notes by or on behalf of the Issuer or the Guarantor shall be made free and clear of, and without withholding or deduction for, or on account of, any present or future Taxes (as defined in the Terms and Conditions of the Notes) imposed, levied, collected, withheld or assessed by or on behalf of any of the Relevant Jurisdictions (as defined in the Terms and Conditions of the Notes), unless the withholding or deduction of the Taxes is required by law. In that event, the Issuer or, as the case may be, the Guarantor will pay such additional amounts as may be necessary in order that the net amounts received by the Noteholders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Notes in the absence of the withholding or deduction, subject to certain exceptions. See *“Terms and Conditions of the Notes – Taxation”*.

Events of Default The Notes contain certain events of default provisions as further described in the Terms and Conditions of the Notes. See *“Terms and Conditions of the Notes – Events of Default”*.

Final Redemption. The Issuer will redeem the Notes at their principal amount on 9 February 2026 unless previously redeemed or purchased and cancelled. See “*Terms and Conditions of the Notes – Redemption and Purchase – Redemption at Maturity*”.

Optional Redemption . . . The Issuer may, at any time upon giving not less than 30 nor more than 60 days’ notice to Noteholders (which notice shall be irrevocable), redeem the Notes, in whole but not in part, at the Early Redemption Amount (as defined in the Terms and Conditions of the Notes). See “*Terms and Conditions of the Notes – Redemption and Purchase – Optional Redemption*”.

Redemption for Taxation Reasons The Notes may be redeemed at the option of the Issuer in whole, but not in part, at their principal amount together with accrued interest, in the event that the Issuer or the Guarantor would be required to pay additional amounts in respect of the Notes in the event of certain changes affecting taxes of any Relevant Jurisdiction (as defined in the Terms and Conditions of the Notes), subject to certain conditions. See “*Terms and Conditions of the Notes – Redemption and Purchase – Redemption for Taxation Reasons*”.

Redemption upon Change of Control Following the occurrence of a Change of Control (as defined in the Terms and Conditions of the Notes), the holder of each Note will have the right, at such holder’s option, to require the Issuer to redeem all, or some only, of that holder’s Notes at their principal amount together with accrued interest. See “*Terms and Conditions of the Notes – Redemption and Purchase – Redemption upon Change of Control*”.

Form and Denomination. The Notes will be issued in registered form in denomination of US\$200,000 and integral multiples of US\$1,000 in excess thereof. The Notes will initially be represented by a Global Certificate (as defined in the Terms and Conditions of the Notes) registered in the name of a nominee of, and deposited with, a common depositary for Euroclear and Clearstream. 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 respective accountholders. Except in the limited circumstances described in the Trust Deed, definitive certificates for the Notes will not be issued in exchange for beneficial interests in the Global Certificate. See “*The Global Certificate*”.

The securities codes for the Notes are as follows:

ISIN	Common Code	LEI Code
XS2295983410	229598341	3003005OKQY2HXXJXJ29

Notices and Payment . . .	So long as the Notes are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear or Clearstream or the Alternative Clearing System (as defined in the Terms and Conditions of the Notes), any notice to the holders of the Notes shall be validly given by the delivery of the relevant notice to Euroclear or Clearstream or the Alternative Clearing System (as defined in the Terms and Conditions of the Notes), for communication by the relevant clearing system to entitled accountholders in substitution for notification as required by the Terms and Conditions of the Notes.
Clearing Systems	Euroclear and Clearstream.
Governing Law	The Notes, the trust deed between the Issuer, the Guarantor and the Trustee to be dated on or about 9 February 2021 (the “ Trust Deed ”) (including the Guarantee) and the Agency Agreement between the Issuer, the Guarantor, the Trustee, the Registrar and agents named therein to be dated on or about 9 February 2021 and any non-contractual obligations arising out of or in connection with them will be governed by and will be construed in accordance with English law.
Ratings	The Notes are expected to be rated Baa2 by Moody’s and BBB by Fitch. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the relevant rating organisation. Prospective investors should evaluate each rating independently of any other rating of the Notes or other securities of the Issuer.
Trustee	DB Trustees (Hong Kong) Limited.
Registrar	Deutsche Bank AG, Hong Kong Branch.
Principal Paying Agent and Transfer Agent . . .	Deutsche Bank AG, Hong Kong Branch.
Listing	Application has been made to the Hong Kong Stock Exchange for listing of, and permission to deal in, the Notes by way of debt issues to Professional Investors only.
Use of Proceeds	The net proceeds of the issue of the Notes, after deducting the fees, commissions and expenses payable in connection with the issue of the Notes, will be approximately US\$509.9 million, which are intended to be used to repay and/or refinance the existing indebtedness of the Group, and for general corporate purposes. See “ <i>Use of Proceeds</i> ”.

RISK FACTORS

In addition to other information in this Offering Circular, investors should carefully consider the following risk factors, together with all other information contained in this Offering Circular, before purchasing the Notes. The risks and uncertainties described below may not be the only ones that the Issuer, the Guarantor or the Group faces. Additional risks and uncertainties that the Issuer, the Guarantor and the Group are not aware of or that they currently believe are immaterial may also adversely affect their respective business, financial condition or results of operations. If any of the possible events described below occurs, the Issuer's, the Guarantor's or the Group's business, financial condition or results of operations could be materially and adversely affected. In such case, the Issuer or the Guarantor or the Group may not be able to satisfy their obligations under the Notes or the Guarantee (as applicable), and investors could lose all or part of their investment.

RISKS RELATING TO THE GROUP'S BUSINESSES

The Group depends significantly on the performance of the PRC property markets, particularly in the third-tier cities in which it is developing properties, as well as in Beijing and Shanghai where the Group and its joint venture holds investment properties.

The Group depends significantly on the performance of the PRC property markets, particularly in the third-tier cities in which the Group is developing properties, as well as in Beijing and Shanghai where the Group and its joint venture hold investment properties. The property interests of the Group are subject to certain risks inherent in the ownership of, investment in and development of real estate properties. These risks include, but are not limited to, the cyclical nature of property markets, changes in general economic, business and credit conditions, changes in government policies or regulations affecting the real estate sector, building and other raw materials shortages, fluctuations in interest rates and the costs of labour and materials. The Group's property interests are also affected by the strength of the economies of the cities and regions in the PRC in which it conducts its business.

Historically, the PRC property market has been cyclical. The rapid expansion of the property market in certain major cities in the PRC, including Shanghai and Beijing in the early 1990s, culminated in oversupply in the mid-1990s and a corresponding fall in property values and rentals in the second half of the decade. Beginning in the late 1990s, private residential property prices and the number of residential property development projects increased in major cities as a result of an increase in demand driven by domestic economic growth. In recent years, the overall demand for private residential properties in the PRC, particularly properties in a number of major PRC cities (including those in which the Group holds properties) has grown rapidly. However, the market has also experienced fluctuations in property prices during the same period. We cannot assure you that the problems of oversupply and falling property prices that occurred in the mid-1990s will not recur in the PRC property market and the recurrence of such problems could adversely affect the Group's business and financial condition.

Furthermore, there have been increasing concerns over housing affordability and the sustainability of market growth. Demand for properties in the PRC has been adversely affected and will continue to be so affected by the macroeconomic control measures recently implemented by the PRC government. Since 2010, the PRC government has promulgated multiple policies and measures on the domestic residential property market to curb perceived growth in the PRC property market. For example, on 26 January 2011, the General Office of the State Council issued the Notice Concerning Further Improving the Regulation of the Real Estate Market, which, among other things, provided that the minimum down payment for second house purchases shall be at 60 per cent., with the minimum lending interest rate at 110 per cent. of the benchmark rate. In addition, mortgagee banks may not lend to any individual borrower if the monthly repayment of the anticipated mortgage loan would exceed 50 per cent. of the individual borrower's monthly income or if the total debt service of the individual borrower would exceed 55 per cent. of such individual's monthly income. As a result of foregoing factors, PRC banks have generally tightened mortgage lending, which had affected the demand in the property market in general. In addition, certain local governments including without limitation Beijing, Shanghai,

Shenzhen, Hefei and Hangzhou have issued new property market control policies, including restoring or strengthening the restriction on purchases of residential properties and tightening credit policy. In March 2017, local governments in certain major cities such as Beijing and Hangzhou introduced further policies to restrain property purchases for specialisation purposes and refrain property prices from rising too quickly. Such policies include suspending the provision of individual housing loans with the term of more than 25 years, raising the minimum percentage of down payment of the purchase price and strictly restricting purchasers from acquiring second (or more) residential property. On 21 January 2021, Shanghai Municipal Housing and Urban-Rural Development Administration Commission released the Notice on Promoting the Steady and Healthy Development of the City's Real Estate Market, which increases the ownership period from 2 to 5 years before being exempt from paying a value-added tax on the sale of individual housing and in addition, for couples who purchase commercial houses within 3 years from the date of their divorce, the number of homes either spouse owns shall be the number of homes they collectively owned before their divorce, as Shanghai has set a limit on the number of homes an individual can own. For further information on these policies and measures, see *"Industry Overview – PRC Property Market"*. Property purchasers in the PRC have been and will continue to be affected by these regulations and their amendments as may be made thereto from time to time. There can be no assurance that the demand for new properties, where the Group has or will have operations, will continue to grow in the future or that there will not be over-development or market downturns in the domestic residential property sector. Any such adverse development and the ensuing decline in property sales or decrease in property prices in the PRC may adversely affect the Group's business and financial condition.

As the Group continues to be dependent, to a significant extent, on the overall state of the PRC property sector, a decline in the performance of this property sector could adversely affect the Group's revenue. Any material adverse development with respect to the property markets in the PRC could have a material and adverse effect on the Group's business, financial condition and results of operations.

The relevant PRC tax authorities may challenge the basis on which the Group calculates its Land Appreciation Tax (the "LAT") obligations.

Under PRC tax laws and regulations, subsidiaries of the Guarantor in the PRC are subject to LAT, which is collected by local tax authorities. The income derived from the transfer of state-owned land use rights, property rights of buildings and attached facilities thereon in the PRC is subject to LAT at progressive rates ranging from 30 per cent. to 60 per cent. of the appreciation value as defined by the relevant tax laws.

On 28 December 2006, the State Administration of Taxation issued the Notice on the Administration of the Settlement of Land Appreciation Tax of Property Development Enterprises which came into effect on 1 February 2007 and was amended on 15 June 2018 (the "LAT Notice"). Under the LAT Notice, provincial tax authorities can discretionally stipulate certain circumstances where taxpayers are required to settle the LAT. In the event that the local authorities of the cities in which the Group undertakes development projects promulgate implementation rules that require the Group to settle all unpaid LAT, the Group's financial position could be adversely affected.

Certain exemptions to LAT are available for the sale of ordinary standard residential houses if the appreciation value does not exceed 20 per cent. of the total deductible items as defined in the relevant tax laws. The Group's management believes that it estimates and makes provision for the full amount of applicable LAT in accordance with the relevant PRC tax laws and regulations, but only pays a portion of such provision each year as required by the local tax authorities. Although the Group's management believes that such provisions are sufficient, there can be no assurance that the tax authorities will agree with the basis on which the Group calculates its LAT obligations. In the event that the local tax authorities believe that a higher rate of LAT should apply, the financial position of the Group may be materially and adversely affected.

The Group may not always be able to replenish its land bank.

The Group derives its revenue principally from the sale of properties that it has developed. To have a steady stream of developed properties available for sale and growth in the long term, the Group needs to replenish and increase its land bank with properties that are suitable for development. Its ability to identify and acquire suitable development sites is subject to a number of factors, some of which are beyond its control.

The availability of substantially all of the land in the PRC is controlled by the PRC government. Thus the PRC government's land policies have a direct impact on the Group's ability to acquire land use rights for development and its costs of acquisition. In recent years, the PRC central and local governments have implemented various measures to regulate the means by which property developers obtain land for property development. The PRC government also controls land supply through zoning, land usage regulations and other means. All of these measures further intensify the competition for land in the PRC among property developers. As such, any subsequent re-zoning by the PRC government could adversely affect the Group's ability to obtain land use rights. If the Group fails to acquire sufficient land bank suitable for development in a timely manner and at acceptable prices, its prospects and competitive position may be adversely affected and its business, financial condition and results of operations may be materially adversely affected.

The Group faces a number of development, construction and approval risks associated with the development of properties. The Group's properties may not be completed as scheduled and may not generate the levels of expected revenue or contemplated investment returns.

There are a number of construction, financing, operating and other risks associated with construction and property developments. Projects of the types undertaken by the Group typically require substantial capital expenditures during the construction phase and usually take many months, sometimes years, before they become operational and generate revenue. The time taken and the costs involved in completing construction can be adversely affected by many factors, including shortages and increased costs of materials, equipment and labour, adverse weather conditions, natural disasters, labour disputes, disputes with third-party contractors, accidents, changes in governmental policies and other unforeseen circumstances. Any of these circumstances could give rise to delays in the completion of construction or cost overruns.

In relation to the Group's property development projects in the PRC, certain government approvals, permits, licenses or consents, such as the permit to commence pre-sales, will need to be obtained. Delays in the process of obtaining, or a failure to obtain, the requisite licenses, permits or approvals from government agencies or authorities may increase the cost or may delay or prevent the commencement of a project, which could adversely affect the financial condition of the Group.

Construction delays may result in the loss of revenue. The failure to complete construction according to specifications may result in liabilities, reduced efficiency and lower financial returns. There can be no assurance that the Group's projects will continue to be completed substantially on schedule or that future projects will be completed on time, or at all, and generate satisfactory returns.

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

Under the Regulations on the Administration of Quality of Construction Works (《建設工程質量管理條例》), which became effective on 30 January 2000 and was amended on 7 October 2017 and 23 April 2019, all property developers should be responsible for the quality of the construction projects. In addition, construction contractors are required to provide repair guarantees to the relevant property developers, which shall specify the scope of, time limit and responsibilities for the repair guarantees of the construction project. If there occurs any quality problem, which falls within the scope of the repair guarantees, within the period of the repair guarantees, the construction contractor shall perform the obligation of the repair guarantees and be liable for compensating for the losses. On 20 July 1998, the

State Council promulgated the Regulation on the Administration of Development and Operation of Urban Real Estate, which was amended on 8 January 2011, 19 March 2018, 24 March 2019, 27 March 2020 and 29 November 2020, according to which property developers shall issue quality warranties to the buyer upon delivering the house. Such quality warranties shall specify the quality level, scope, duration and the responsible party. Property developers shall bear the relevant obligations in accordance with the quality warranties. The Group cannot guarantee that the Group will not receive customer claims in relation to the quality of the Group's projects. If a significant number of claims were brought against the Group under the Group's quality warranties and if the Group was unable to obtain reimbursement for such claims from third-party contractors in a timely manner or at all, or if the money retained by the Group to cover the Group's payment obligations under the quality warranties is not sufficient, the Group could incur significant expenses to resolve such claims or face delays in remedying the related defects, which could in turn harm the Group's reputation, and materially and adversely affect the Group's business, financial condition and results of operations.

The Group may not be able to effectively manage its expansion and growth.

The Group has grown rapidly in the past. The Group's contracted property sales (including those of its associates and joint ventures) grew from HK\$37.1 billion in 2017 to HK\$50.5 billion (RMB41.1 billion) in 2018, and further to RMB53.7 billion in 2019. As it continues to acquire properties for development, whether through internal growth, mergers and acquisitions or otherwise, such expansion may place a strain on the Group's managerial, operational and financial resources, and will contribute to an increase in its financing requirements. In 2019, the Group completed an acquisition of a property project company located in Weinan City, Shaanxi province from COHL at the cash consideration of RMB490.0 million. The Group's planned expansion is based on its forward-looking assessment of market prospects. There is no assurance that the Group's assessments will turn out to be accurate or that the asset acquisitions will materialise. Any failure in effectively managing the Group's expanded operations may materially and adversely affect its business, financial condition and results of operations.

There may be risks associated with any material acquisitions by the Group in the future.

The Group may consider expanding its business by acquiring property projects, assets or certain interests in other companies. During the course of these transactions, the Group will conduct due diligence investigations with respect to the projects, assets or target companies, but the due diligence with respect to any acquisition opportunity may not reveal all relevant facts that are necessary or useful in evaluating such opportunity, which could subject the Group to unknown financial and legal risks and liabilities. When determining the price for any acquisition, the Group will consider various factors, including the quality of the target business, estimated costs associated with the acquisition and the management of the target business, prevailing market conditions and intensity of competition. The Group will also face various issues arising from the acquisition after the relevant transaction is completed, such as integration of the business into its operations and allocation of internal resources. There can be no assurance that the Group will be able to address these issues effectively. In addition, any major acquisition or transaction of similar nature may consume substantial management attention and financial resources of the Group or even cause the Group to incur significant indebtedness. Any material decrease in its financial resources may limit the Group's ordinary operating activities and increase pressure on its liquidity, and in turn could materially and adversely affect its business, financial condition and results of operations.

The Group's businesses require substantial capital investment.

On 28 December 2020, the People's Bank of China (the "PBOC") and China Banking and Insurance Regulatory Commission (the "CBIRC") jointly promulgated the Notice of the PBOC and the CBIRC on Establishing a Centralisation Management System for Real Estate Loans of Banking Financial Institutions (中國人民銀行中國銀行保險監督管理委員會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 requires a PRC financial institution (excluding its overseas branches) to limit the amount of real estate loans and personal housing mortgage loans it lends to a proportion calculated based on the total amount of RMB loans extended by such financial institution. A relevant

financial institution will have a transition period of 2 years or 4 years to comply with the requirements depending on whether such financial institution exceeded 2% of the legal proportion based on the statistical data relating to such financial institution as of 31 December 2020. Under the notice, the PBOC and the CBIRC will have the authority to take measures such as, among other things, imposing additional capital requirements on and reallocating the weight adjustments relating to the risk of real estate assets for financial institutions that fail to rectify the proportion requirements within a certain period.

The Group may require additional financing to fund investment in stock of properties and deposits for land use rights for property development to support the future growth of its business and to refinance existing debt obligations. The Group's core businesses may require substantial capital investment, particularly for its property development and property investment segments. The Group has historically required and may in the future continue to require external financing to fund its capital expenditures. The Group's ability to arrange for external financing and the cost of such financing are dependent on numerous factors, including general economic and capital market conditions, interest rates, credit availability from banks or other lenders, investor confidence in the Group, success of the Group's businesses, provisions of tax and securities laws that may be applicable to the Group's efforts to raise capital, and political and economic conditions in the PRC, Hong Kong and Macau. There are no assurance that the PRC government will relax existing restrictive measures, impose and enhance restrictive measures, or to impose other restrictive policies, regulations or measures in the future. The existing and other future restrictive measures may limit Group's access to capital, reduce market demand for Group's products and increase Group's finance costs, and any easing measures introduced may also not be sufficient. There can be no assurance that additional financing, either on a short-term or a long-term basis, will be made available or obtained on terms favourable to the Group, failing which the Group's business, financial position and results of operations may be materially and adversely affected.

The fair value of the Group's investment properties is likely to fluctuate from time to time and may decrease significantly in the future, which may materially adversely impact its profitability.

The Group is required to reassess the fair value of its investment properties at the end of every reporting period for which it issues financial statements. Under HKFRS, gains or losses arising from changes in the fair value of investment properties are included in the Group's consolidated income statement in the period in which they arise. The Group recorded a fair value gain on investment properties of HK\$191.8 million for the year ended 31 December 2017 and a fair value gain on reclassification of inventories of properties to investment properties of RMB72.2 million for the year ended 31 December 2019. Fair value gains or losses do not, however, change the Group's cash position as long as the relevant investment properties are held by the Group and, therefore, do not increase its liquidity notwithstanding the increased profit. The amount of revaluation adjustments has been, and will continue to be, subject to market fluctuations. There can be no assurance that changes in the market conditions will continue to create fair value gains on the Group's investment properties at the previous levels or at any level at all, or that the fair value of the Group's investment properties will not decrease in the future. In particular, the fair value of its investment properties could decline in the event that the PRC property industry experiences a downturn as a result of PRC government policies aimed at "cooling-off" the PRC property market, or the global economic downturn and financial market crisis since mid-2008 from time to time. Any significant decreases in the fair value of the Group's investment properties may materially and adversely impact its business, financial position and results of operations.

The Group may be forced to forfeit its land use rights without compensation if the Group fails to comply with the terms of the land grant contracts.

Under PRC laws, if a developer fails to develop land according to the terms of the land grant contract (including those relating to payment of fees, designated land use or the time for commencement and completion of the development of the land), the relevant local government authority may give a warning to or impose a penalty on the developer, or require the property developers to forfeit the land use rights. Under the current PRC laws and regulations, if a developer fails to pay any outstanding land

grant premium by the stipulated deadline, it may be subject to a late payment penalty calculated on a per-day basis. In addition, if a developer fails to commence development of a property project within the stipulated period as required under the current PRC laws without the approval from the relevant PRC land bureau, the relevant PRC land bureau may serve a decision on the collection of the charges for idle land to the developer and impose an idle land fee of up to 20 per cent. of the land premium unless such failure is caused by a government action or a force majeure event. Even if the commencement of the land development complies with the land grant contract, if the developed GFA on the land is less than one-third of the total GFA of the project, or if the total capital expenditure is less than 25 per cent. of the total estimated investment of the project indicated in the property development proposal submitted to the relevant government and the suspension of the development of the land is more than one year without government approval, the land will still be treated as idle land. The Notice on Promoting Economisation of Land Use issued by the State Council of China (the “**State Council**”) in January 2008 and the Measures for the Disposal of Idle Land issued by the Ministry of Land and Resources in June 2012 further confirmed the idle land penalty at 20 per cent. of the land premium. If a developer fails to commence such development for more than two years, the land is subject to forfeiture without compensation to the PRC government unless the delay in development is caused by government actions or force majeure.

As at 30 June 2020, the construction works of the land parcels of China Overseas Grand Oceans Lushan Xihai (Jiujiang) Investment Co., Ltd., Jiujiang Shenshuiwan Investment Co., Ltd., Jiujiang Taohuali Investment Co., Ltd., Jiujiang Xigu Investment Co., Ltd. and Jiujiang Napagu Investment Co., Ltd. in Jiujiang were behind the stipulated development timelines. Based on the communication with the local authority, the local authority had indicated that it would consider taking action against the companies according to the relevant regulations. The companies are in the process of applying for approval from the local authority to extend the commencement date of construction works. However, as at the date of this Offering Circular, the approval has not yet been granted and no action has been taken by the local authorities against the Group in respect of the delay of commencement of construction works on the concerned land parcels in Jiujiang. For further details, see note 47(b) to the audited consolidated financial statements of the Guarantor as at and for the year ended 31 December 2019 included elsewhere in this Offering Circular. Although the Group has not been subject to any material penalties, or required to pay substantial idle land penalty or forfeit any of its land in the PRC save as disclosed above, there can be no assurance that circumstances leading to possible forfeiture of land or delays in the completion of a project may not arise in the future.

The Group may not be able to obtain land use rights certificates for certain existing properties or properties acquired in the future.

To develop and sell real estate in the PRC, property developers are required to obtain land use rights certificates from the relevant government authorities. The land use rights certificate in respect of a piece of land will not be issued until the developer has executed the land use rights contract with the relevant authorities, made full payments of the land premium, and complied with the land use rights and any other land grant conditions. There is no assurance that the relevant PRC government authorities will grant the appropriate land use rights or issue the relevant land use rights certificates in respect of these parcels of land or in respect of other land the Group may contract to acquire in the future, in a timely manner, or at all. If the Company fails to obtain, or experiences material delay in obtaining, the land use rights certificates with respect to any parcels of land the Group has contracted or may contract to acquire in the future, in a timely manner, or at all, the Group’s business, results of operations and financial condition may be materially and adversely affected. Furthermore, there is no assurance that if the transactions as contemplated in the relevant agreement can be completed, any refund of the Group’s prepayments will be provided in a timely manner or at all. If the Group fails to obtain refunds, its financial condition, cash flow and results of operations may be materially and adversely affected.

We may not be able to obtain, extend or renew qualification certificates for property development.

As a pre-condition to engaging in property development in China, a property developer must obtain a qualification certificate and have it renewed annually unless the rules and regulations allow for a longer renewal period. According to the relevant PRC regulations on qualification of property developers, a newly established property developer must first apply for a provisional qualification certificate with a one-year validity, which can be extended for a maximum of two years. If the newly established property developer fails to commence a property development project within the one-year period when the provisional qualification certificate is in effect, it will not be allowed to extend its provisional qualification certificate. Furthermore, established property developers must also apply for renewal of their qualification certificates on an annual basis. It is mandatory under government regulations that developers fulfil all statutory requirements before obtaining or renewing their qualification certificates. We may not be able to obtain the qualification certificates in a timely manner, or at all, as and when they become due to expire. If we do not possess valid qualification certificates, the governmental authorities may refuse to issue pre-sale and other permits necessary for our property development business. In addition, the governmental authorities may impose a penalty on us and our project companies for failure to comply with the relevant licensing requirements. If we are unable to meet the relevant requirements, and therefore unable to obtain or renew the qualification certificates or pass the annual verification, our business and financial condition could be materially and adversely affected.

The Group faces risks related to the pre-sales of properties.

The Group depends on revenue from the pre-sales of its properties as an important source of funding for its property development projects. There is no assurance that the Group will be able to continue achieving sufficient pre-sales to fund a particular development. Under current PRC laws and regulations, property developers must fulfil certain conditions before they can commence the pre-sale of properties and may only use pre-sale proceeds to finance the development of such properties. Since 2005, proposals recommending a ban on the practice of pre-selling uncompleted properties have been introduced by various entities in the PRC, including the PBOC and the NDRC. These recommendations have not been adopted nationwide. On 7 March 2020, Hainan government issued the Notice on the Establishment of Urban Subject Responsibility System for Steady and Healthy Development of Real Estate Market (關於建立房地產市場平穩健康發展城市主體責任制的通知) which stipulates that the existing house sales system shall be applied to commercial housing built on newly transferred land. However, there can be no assurance that other PRC governmental authorities will not ban the practice of pre-selling uncompleted properties or implement further restrictions on the pre-sale of properties, such as imposing additional conditions for a pre-sale permit or further restrictions on the use of pre-sale proceeds. Proceeds from the pre-sale of the Group's properties are an important source of financing for the Group's property developments. As at 31 December 2017, 2018 and 2019, the Group had pre-sales deposits of HK\$30.8 billion and contract liabilities of HK\$43.3 billion (RMB37.9 billion) and RMB54.6 billion, respectively. Consequently, any restriction on the Group's ability to pre-sell its properties, including any increase in the amount of up-front expenditure that it must incur prior to obtaining the pre-sale permit, would extend the time period required for recovery of its capital outlay and would result in it needing to seek alternative means to finance the various stages of its property developments. This, in turn, could have an adverse effect on the Group's business, cash flow, results of operations and financial condition.

The Group also faces the risk that it will be liable to the purchasers of pre-sold units for losses suffered by them if the development of the fully or partially pre-sold property is not completed. The Group cannot assure investors that these losses would not exceed any deposits that may have been made in respect of the pre-sold units. In addition, if the development of a pre-sold property is not completed on time, the purchaser may be entitled to compensation for late delivery. If the delay extends beyond the contractually specified period, or if the actual GFA of a completed property delivered to a purchaser deviates by more than 3 per cent. from the GFA originally indicated in the purchase contract without any such prior agreement therein, the purchaser will be entitled to terminate the purchase contract and

claim damages. Any termination of the purchase contract as a result of the Group's late delivery of properties will have a material adverse effect on the Group's business, financial condition and results of operations.

If any of the aforementioned risks with regard to pre-sale of the property happens, the Group's business, financial condition and results of operation could be adversely and materially affected.

Resettlement arrangements relating to the Group's future and potential developments may be subject to negotiation and any failure to reach an agreement may affect the Group's schedule to develop the relevant projects.

Under PRC laws and regulations, the relevant local government authority is responsible for the expropriation of the lands and buildings and is required to pay compensation to residents of a site to be cleared prior to construction. If the relevant local government authority responsible for the expropriation and the party subject to the expropriation fail to reach an agreement for compensation and resettlement within certain period, the relevant local government authority may make the final decision on the plan of expropriation. If the party subject to the expropriation is not satisfied with such decision, it may initiate administrative proceedings in court which may cause delays to the Group's development schedule for the relevant project. In addition, any such delays to the Group's development schedule may lead to an increase in costs and a delay in the expected cash inflow resulting from pre-sales of the relevant project, which may in turn materially and adversely affect the Group's business, financial position and results of operations.

The Group is exposed to general risks associated with the ownership of real property.

Property investment is generally illiquid, limiting the ability of an owner or a developer to convert property assets into cash at short notice or requiring a substantial reduction in the price that might otherwise be sought for such assets to ensure a quick sale. Such illiquidity also limits the ability of the Group to vary its portfolio in response to changes in economic or other conditions. Moreover, the Group may face difficulties in securing timely and commercially favourable financing in asset-based lending transactions secured by real estate due to its illiquidity.

Property investment is subject to risks incidental to the ownership and management of residential, office and retail properties, including, among other things, competition for tenants, changes in market rents, inability to renew leases or re-let space as existing leases expire, inability to collect rent from tenants due to bankruptcy or insolvency of tenants or otherwise, inability to dispose of major investment properties for the values at which they are recorded in the financial statements, increased operating costs and the need to renovate, repair and re-let space periodically and to pay the associated costs, which may in turn have a material adverse effect on the Group's business, financial position and results of operations.

The Group has provided guarantees to secure obligations of purchasers of its properties for repayments. Defaults by a significant number of purchasers would adversely affect the Group's financial condition.

In the PRC, the Group has provided short-term pre-registration guarantees in favour of banks which provided mortgage facilities for purchasers of the Group's properties to secure such purchasers' repayment obligations. See "*The Group – Property Development – Property Development Process – Payment method and mortgage financing*". As at 31 December 2019, the Group's outstanding guarantees in respect of the mortgage loans of its customers amounted to RMB30,453.6 million. Under the terms of the pre-registration guarantees, if, during the term of the guarantee (from the date of the mortgage up to typically either submission of the relevant property ownership certificates to the mortgagee bank or completion of the registration of the mortgage, which, when submission of relevant ownership certificates is required, usually lasts for up to 18 months, but is shorter in other situations), a

purchaser defaults on its repayment obligation, the Group will be liable to pay to the banks the amount owing to them from the purchaser, but the Group will have the right to take possession of and re-sell the mortgaged property.

Defaults by a significant number of the Group's customers for whom the Group has provided guarantees could materially and adversely affect the Group's business, financial condition and results of operations.

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

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

As required by PRC laws and regulations, projects in environmental-sensitive areas or regions developed by the Group are required to undergo environmental assessments and the Group is required to submit an environmental impact assessment form to the relevant governmental authorities for approval before commencement of its construction. For other projects, the Group is required to file an environmental impact registration form for approval. It is possible that there are potential material environmental liabilities of which the Group is unaware. In addition, it cannot be assured that the Group's operations will not result in environmental liabilities or that the Group's contractors will not violate any environmental laws and regulations in their operations that may be attributed to the Group, and in the event of the occurrence of such liabilities or violations, the Group's business, financial position and results of operations may be materially and adversely affected. Investors should refer to the section entitled "The Group – Environmental and Safety Matters" for more information in respect of environmental matters.

The Group's business is sensitive to global economic conditions. A severe downturn in the global economy could materially and adversely affect the revenue and results of operations of the Group.

The global financial markets have been affected by a general slowdown of economic growth globally, resulting in substantial volatility in global equity securities markets and tightening of liquidity in global credit markets. Since 2011, the tightening monetary policies and high inflation in the PRC, global economic uncertainties and the euro zone sovereign debt crisis have resulted in adverse market conditions and increased volatility in the PRC and overseas financial markets. While it is difficult to predict how long these conditions will exist and the extent to which we may be affected, these developments may continue to present risks to our business operations for an extended period of time, including increase in interest expenses on our bank borrowings, or reduction in the amount of banking facilities currently available to us. On 23 June 2016, the United Kingdom held a remain-or-leave referendum on its membership within the European Union, the result of which favoured the exit of the United Kingdom from the European Union ("Brexit"). On 31 January 2020, the United Kingdom officially exited the European Union following a UK-EU Withdrawal Agreement signed in October 2019. The UK and the European Union had a transition period to negotiate, among others, trade agreements in details, which ended on 31 December 2020. In December 2020, the United Kingdom, the European Union and the European Atomic Energy Community concluded the EU-UK Trade and Cooperation Agreement, which is provisionally applicable since 1 January 2021 and awaits ratification by the European Parliament and the Council of the European Union and legal revision before it formally comes into effect. Given the lack of precedent and uncertainty of the negotiation, the effect of Brexit

remains uncertain, and Brexit has and may continue to create negative economic impact and increase volatility in the global market. These challenging market conditions have resulted in reduced liquidity, widening of credit spreads in credit markets, a reduction in available financing and a tightening of credit terms. Furthermore, China's economic growth may also slow down due to weakened exports as a result of tariffs and trade tensions caused by the U.S.-China trade war. In 2018 and 2019, the U.S. government, under the administration of the then President Donald J. Trump, imposed several rounds of tariffs on cumulatively US\$550 billion worth of Chinese products. In retaliation, the Chinese government responded with tariffs on cumulatively US\$185 billion worth of U.S. products. In addition, in 2019, the U.S. government restricted certain Chinese technology firms from exporting certain sensitive U.S. goods. The Chinese government lodged a complaint in the World Trade Organisation against the U.S. over the import tariffs in the same year. The trade war created substantial uncertainties and volatilities to global markets. On 15 January 2020, the U.S. and Chinese governments signed the U.S.-China Economic and Trade Agreement (the "**Phase I Agreement**"). Under the Phase I Agreement, the U.S. agreed to cancel a portion of tariffs imposed on Chinese products, China promised additional purchases of U.S. goods and services, and both parties expressed a commitment to further improving various trade issues. Despite this reprieve, however, it remains to be seen whether the Phase I Agreement will be abided by both governments and successfully reduce trade tensions. If either government violates the Phase I Agreement, it is likely that enforcement actions will be taken and trade tensions will escalate. Furthermore, additional concessions are needed to reach a comprehensive resolution of the trade war and the U.S. government's approach, under the new administration of President Joseph R. Biden, towards China remains to be seen. The roadmap to the comprehensive resolution remains unclear, and the lasting impact it may have on China's economy and the PRC real estate industry remains 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 would be negatively affected. Any severe or prolonged slowdown or instability in the global or China's economy may materially and adversely affect our business, financial condition and results of operations. Should there be a further economic downturn or credit crisis for any reason, our ability to borrow funds from current or other funding sources may be further limited, causing our continued access to funds to become more expensive, which would adversely affect our business, liquidity, financial condition, results of operations, and most importantly, our property development projects. As such, the Group cannot assure you that our business operations will not suffer further adverse effects caused by the previous or future credit crisis in the near future.

The parent company of the Group's controlling shareholder, CSCEC, is on a list of Chinese companies produced by the U.S. Department of Defense that were identified as "Communist Chinese Military Companies" and is subject to restrictions imposed by a U.S. Presidential Executive Order that prohibits U.S. persons from engaging in any transactions in publicly traded securities, or any securities that are derivative of, or are designed to provide investment exposure to such securities of such Communist Chinese Military Companies.

Since 2018, the uncertainty to global markets (including the U.S.-China trade war and the outbreak of COVID-19 pandemic) has impacted businesses and financial market sentiment, influenced financial market volatility, and slowed investment and trade. Amidst the continued intensification of tensions between the United States and China, the U.S. government, citing that for U.S. national security concerns reasons, increase scrutiny of foreign businesses (in particular targeting business pertaining to Chinese parties), such as CSCEC, the parent company of the Guarantor's controlling shareholder which holds approximately 38.32 per cent. of equity interest in the Guarantor.

In August 2020, the U.S. Department of Defense produced a list of 20 Chinese companies (the "**Pentagon List**"), including China State Construction Group Co., Ltd., which were identified as "Communist Chinese Military Companies" pursuant to Section 1237 of the National Defense Authorisation Act for Fiscal Year 1999 ("**Section 1237**"). CSCEC, whose name closely matches with China State Construction Group Co., Ltd., is the parent company of controlling shareholder of the Group

and the Group conducts business with other subsidiaries of CSCEC from time to time. The U.S. Department of Defense has added further Chinese companies onto the Pentagon List during 2020 and 2021.

On 12 November 2020, the then President Trump issued an Executive Order titled “Addressing the Threat from Securities Investments that Finance Communist Chinese Military Companies” (the “**Executive Order**”). The Executive Order prohibits, beginning on 11 January 2021, “U.S. persons” (defined under the Executive Order, as any United States citizen, permanent resident alien, entity organised under the laws of the United States or any jurisdiction within the United States (including foreign branches), or any person in the United States (“**U.S. persons**”)) from engaging in any transactions in “publicly traded securities, or any securities that are derivative of, or are designed to provide investment exposure to such securities” (each a “**Restricted Security**”) of the companies on the Pentagon List, or those that the U.S. Secretary of Defense or U.S. Secretary of the Treasury identifies as such a company in the future. The U.S. Secretary of the Treasury is authorised to “publicly list” a subsidiary of an “already determined” Communist Chinese Military Company. The Executive Order includes a 10-month wind down period where purchases for value or sales made within the prescribed period by U.S. persons solely to divest, in whole or in part, from such Restricted Security are permitted. Subsidiaries of the Communist Chinese Military Companies are not automatically covered by the restrictions set out in the Executive Order, unless they have a name that exactly or closely matches the name of an entity identified in the Annex to the Executive Order (effective 11 January 2021) or subsequently identified pursuant to the Executive Order (effective 60 days subsequent to a public notice).

The Office of Foreign Assets Control of the U.S. Department of the Treasury (“**OFAC**”) has published a series of FAQs (the “**FAQs**”) related to the Executive Order. According to the FAQs, the prohibitions in the Executive Order apply to restricted securities of an entity with a name that exactly or closely matches the name of an entity identified in the Annex to the Executive Order (effective 11 January 2021) or subsequently identified pursuant to the Executive Order (effective 60 days subsequent to a public notice). Subsidiaries of the Communist Chinese Military Companies will be covered after such subsidiaries are publicly listed as such by the U.S. Secretary of the Treasury pursuant to the Executive Order. However, if the subsidiary has an exact or closely matching name to that of a Communist Chinese Military Company listed by the U.S. Secretary of Defense or U.S. Secretary of the Treasury, the prohibitions are applicable regardless of their listing. OFAC has published a list of Communist Chinese Military Companies called the Non-SDN Communist Chinese Military Companies List. As a temporary measure as the new Biden administration conducts a review of the Executive Order, OFAC published certain general licenses, including General License 1A, which authorises through 27 May 2021, all transactions and activities that would otherwise be prohibited by the Executive Order relating to securities of an entity whose name closely matches the name of a Communist Chinese Military Company identified in the Annex to the Executive Order but which is not listed on the Non-SDN Communist Chinese Military Companies List. The outcome of such review remains uncertain.

The Executive Order is a form of U.S. sanctions and as at the date of this Offering Circular, the Guarantor is not subject to the Executive Order. However, there is no assurance that the Guarantor or any other member of the Group may not become subject to this Executive Order. Furthermore, there is no assurance that the Guarantor or any other member of the Group will not be subject to similar executive orders as there is a significant amount of uncertainty about the policies and the future actions that may be taken by the government of the United States. If the Guarantor or any other member of the Group is subject to similar regulations or executive orders prohibiting U.S. investors from investing in the Notes, the liquidity of the market and the trading price of the Notes will be adversely impacted.

The restrictions imposed by the Executive Order on CSCEC may also open CSCEC and/or the Group to negative media and investor attention, and may cause their business partners to re-evaluate the risk of transacting with CSCEC and/or the Group in light of the escalating U.S.-China tensions. This may also affect CSCEC and/or the Group’s businesses in the overseas markets (including the U.S.).

Although the Group currently does not have any operations or activities in the United States, the Group's overseas expansion plan, if any, may be materially and adversely affected as the tensions between the United States and China intensify.

In the future, any further escalation of the U.S.-China tensions may cause the U.S. government to impose on CSCEC and/or the Group additional sanctions or restrictions pursuant to Section 1237 and/or other sanction programs, which could include measures with a range of severity, including possible prohibition of transactions by the sanctioned entity through the U.S. financial system and blocking sanctions, the imposition of additional or heightened restrictions or the prohibition on the ability of U.S. persons from engaging in commercial activities with sanctioned entities by the U.S. government.

The Group has been closely monitoring the development of the Pentagon List and the impacts of the Executive Order. It is actively implementing corresponding mitigation measures in response to the latest development of such situations. In addition, a number of the loan agreements entered into by members of the Group (including the Guarantor) contain customary representations on sanctions that require the relevant obligors to confirm from time to time that the Group and its affiliates (where such affiliates would generally be interpreted to include CSCEC) are not the subject of any sanctions. As of the date of this Offering Circular, the Group has not received any notice from any of its lenders that it considers the Group to be in non-compliance of such sanction representations or any requests for early repayment of such offshore facilities. However, there is no assurance that any such restrictions or sanctions on CSCEC and/or the Group will not materially and adversely affect CSCEC and/or the Group's business, prospects, financial condition and results of operations and their future business expansion in the overseas markets (including the U.S.).

The Group's business is subject to extensive governmental regulation and is susceptible to policy changes in the PRC property sector.

The Group's business is subject to extensive government regulation. As with other PRC property developers, the Group must comply with various requirements mandated by PRC laws and regulations, including the policies and procedures established by local authorities designed to implement such laws and regulations. In particular, the PRC government exerts considerable direct and indirect influence on the development of the PRC property sector by imposing industry policies and other economic measures, such as control over the supply of land for property development, control of 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, place additional limitations on the ability of commercial banks to make loans to property developers and property purchasers, impose additional taxes and levies on property sales and restrict foreign investment in the PRC property sector. Many of the property industry policies carried out by the PRC government are unprecedented and are expected to be refined over time. Other political, economic and social factors may also lead to further adjustments and changes of such policies.

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. In recent years, various administrative bodies launched a series of measures to discourage speculation and control the growth of the PRC property market. Demand for properties and property prices in China have fluctuated significantly in recent years, and are expected to continue to be affected by macro-economic control measures implemented by the PRC government from time to time. For example, as a result of changes in the PRC's economic environment and PRC government's tightening monetary policies, the growth of the PRC real estate market has slowed down with sales volumes or average selling prices decreasing in many major cities in 2014 as compared with the corresponding period in 2013 but has partially recovered in 2015 and 2016. Further restrictive measures adopted by the PRC government on bank loans, trust financing arrangements for real estate development projects and property purchases since April 2010 have had, and may continue to have, a dampening effect on property markets in the PRC.

Since 2016, the local governments in various cities in the PRC have announced a series of measures designed to stabilise the growth of the property market to a more sustainable level. For example, limiting the number of residential homes that households with local resident registration are able to purchase; raising the down-payment ratio requirement (or even disallowing a mortgage), depending on how many residential homes the buyers already own; limiting the purchase of a residential home by a household without local resident registration and in some cases eligibility will be required (such as proving they have paid income tax or made social security contributions up to the requirement); stricter pre-sale management enhancements, such as not allowing developers to sell the projects before getting the pre-sale permit, and ensuring developers closely follow the rules during the pre-sale process; and tighter requirements for land bidding deposit. Such tightening measures were also announced in some of the cities in which the Group operates. These tightening measures may have adverse and material impacts on the Group's business operations and financial performance.

On 13 February 2017, the Asset Management Association of China issued Circular 4 of Regulation for Registration Management of Private Asset Management Plan by Securities and Future Institutions (the "Circular 4"). Circular 4 provides that any private equity and asset management plan that is adopted to make either direct or indirect investment into any ordinary residential property project located in certain PRC cities where the property price rises too fast shall not be filed for a record temporarily. Such cities currently include 16 major cities in the PRC, such as Shanghai, Hefei, Nanjing, Suzhou, Tianjin, Fuzhou, Wuhan and Zhengzhou, and the list of such cities may be updated from time to time in the future according to the relevant regulations of the Ministry of Housing and Urban-Rural Development of the PRC. In addition, a private equity and asset management plan shall neither be used to finance any real estate developer by means of bank entrusted loans, trust plans, or usufruct of transferee assets, for the purpose of paying the price of land grant or supplementing the working capital, nor be used to directly or indirectly facilitate any violation or illegality of various institutions' granting of loans for down payments.

On 1 April 2017, the Ministry of Land and Resources and Ministry of Housing and Urban-Rural Development issued the 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). To maintain a housing supply-demand balance, cities facing serious demand over supply and overheating market shall increase the supply of housing land, especially for ordinary commercial houses; and cities with excessive housing supply shall reduce or suspend the land supply for housing. All the local governments shall build an inspection system to monitor the source of funds for land acquisition to ensure that the real estate developers use their own legal funds to purchase lands. These measures reduced the transaction volumes in certain major cities in the PRC in the second quarter of 2017.

On 19 May 2018, the Ministry of Housing and Urban-Rural Development issued the Notice on Further Regulating and Controlling the Real Estate Market (關於進一步做好房地產市場調控工作有關問題的通知), which provided that local authorities shall targetedly enhance the effective supply of housing and land, increase the proportion of medium-and-low-priced and medium-and-small-sized ordinary commercial housing in the newly-built commercial housing, and improve the methods of supplying the land of commercial housing. Particularly, Hot Cities shall increase the proportion of residential land, and the proportion of residential land to urban construction land is suggested not to be lower than 25%. The supply of rental housing land and joint-property housing land shall be enhanced and the supply of public rental housing land shall be guaranteed. The proportion of public rental housing land, rental housing land and joint-property housing land in the new residential land is targeted to reach or exceed 50% in 3-5 years. In addition, Hot Cities shall promote the diversification of land supply entities. The state-owned land whose use right is obtained by non-real-estate enterprises legally may be used as rental housing land if its ownership remains unchanged and its use is in line with the overall land use planning and the urban and rural planning.

According to a notice issued by the PBOC on 25 August 2019, the individual mortgage loan rate is based on the latest monthly loan prime rate, or LPR, starting 8 October 2019, instead of the one-year benchmark lending rate. For purchasing the first house, individual borrowers of new mortgage loan will pay an interest rate of no less than LPR of a corresponding tenor, while buyers of second house should pay an interest rate that is 60 basis points above the LPR. Borrowers could negotiate with banks on how to reprice their mortgage loans each year based on changes of the LPR.

More recently, in late August 2020, the Ministry of Housing and Urban-Rural Development (“MOHURD”) and the PBOC held a meeting with the key real estate enterprises to discuss a long-term mechanism for regulation of the real estate market. The MOHURD and the PBOC then introduced several capital and financing management rules, commonly known as the “three red lines”, to regulate the real estate market, requiring some real estate enterprises to maintain (i) a debt-to-asset ratio of no greater than 70% after exclusion of the deposits received; (ii) a net debt ratio of no greater than 100%; and (iii) a cash to short-term debt ratio of no less than one. We cannot assure you that we will be successful in adapting our operations to the “three red line” policy, and such policy may disrupt our business prospects, or causes us to incur additional costs, and our business, prospects, financial condition and results of operations may be materially and adversely affected.

The Group cannot assure you that the PRC government will not adopt more stringent industry policies and measures in the future. It is difficult to predict the impact these policies and measures may have on the Group’s sales volume and revenue. If the Group fails to adapt its operations to new policies or measures that may come into effect from time to time, or if the Group’s marketing and pricing strategies are not effective, the contracted sales and selling prices may decline, or the Group may incur additional costs, in which case the Group’s operating cash flows, gross profit margin, business prospects, results of operations and financial condition may be materially adversely affected.

The Group’s financing costs are subject to changes in interest rates.

Changes in interest rates have affected and will continue to affect the Group’s financing costs and, ultimately, its results of operations. As at 31 December 2019, the Group had total borrowings of RMB30.8 billion (which comprises of the total bank and other borrowings and the guaranteed notes payable), and the costs of certain Renminbi and Hong Kong dollar/US dollar denominated borrowings were subject to changes in interest rates. Renminbi and Hong Kong dollar/US dollar denominated borrowings accounted for approximately 52 per. cent and 48 per. cent of the Group’s total consolidated borrowings, respectively, as at 31 December 2019. As at 31 December 2019, the average interest rate on the Group’s outstanding Renminbi borrowings was higher than the average interest rate on its outstanding Hong Kong dollar borrowings. There can be no assurance that interest rates will not rise in the PRC or in Hong Kong. To the extent that interest rates increase in respect of any of the Group’s borrowings (in particular, its bank borrowing with floating rates) and the Group is not able to pass on such costs to purchasers of its properties, the Group’s business, financial condition and results of operations could be adversely affected. Any further increase in these interest rates will increase the Group’s financing costs and may materially and adversely affect its business, financial condition and results of operations.

The Group may be subject to risks presented by fluctuations in exchange rates between the Renminbi and other currencies, particularly the US dollar.

The Notes are denominated in US dollars, while substantially all of the revenue generated by the Group’s PRC subsidiaries and their assets are denominated in Renminbi. To the extent that the Group needs to convert the net proceeds from issuing the Notes into Renminbi for its operations, appreciation of Renminbi against the US dollar would reduce the Renminbi amount the Group would receive from the conversion. Conversely, if the Group decides to convert Renminbi into US dollar for the purpose of making interest payments on the Notes or for other business purposes, appreciation of the US dollar against Renminbi would reduce the US dollar amount available to the Group.

From 1994 to 20 July 2005, the official exchange rate for the conversion of the Renminbi to US dollar was generally stable. Although Chinese governmental policies were introduced in 1996 to reduce restrictions on the convertibility of the Renminbi into foreign currency for current account items, conversion of the Renminbi into foreign exchange for capital items, such as foreign direct investment, loans or securities, requires the approval of the State Administration of Foreign Exchange (the “SAFE”) and other relevant authorities. On 21 July 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 2 per cent. against the US dollar. The PRC government has since made and in the future may make further adjustments to the exchange rate system. In May 2007, the PBOC increased the floating band for the trading prices in the inter-bank foreign exchange market of the Renminbi against the US dollar from 0.3 per cent. to 0.5 per cent. around the central parity rate. This allowed the Renminbi to fluctuate against the US dollar by up to 0.5 per cent. above or below the central parity rate published by the PBOC. This range was subsequently increased to 1.0 per cent. on 16 April 2012 and to 2.0 per cent. on 14 March 2014. In August 2015 the PBOC devalued the Renminbi, lowering its daily mid-point trading price significantly against the US dollar. According to the announcement that the PBOC published on 11 August 2015, the currency devaluation of the Renminbi was intended to bring the Renminbi’s daily mid-point trading price against the US dollar as a benchmark more in line with the market by taking market signals into account. Subsequently, the Renminbi experienced a further depreciation in value against the US dollar. With an increased floating range of the Renminbi’s value against foreign currencies and a more market-oriented mechanism for determining the midpoint exchange rates, the Renminbi may further depreciate or appreciate in value against the US dollar or other foreign currencies.

Other governments have renewed pressure on the PRC government to alter its exchange rate system, and it is possible that the PRC government may adopt further reforms of its exchange rate system, including making the Renminbi freely convertible in the future. There are limited hedging instruments available in the PRC to reduce the Group’s exposure to exchange rate fluctuations between Renminbi and other currencies. To date, the Group does not have any hedging arrangements in place to reduce its exposure to such risks. If such reforms were implemented and resulted in a devaluation of the value of Renminbi against the US dollar, such a devaluation could adversely affect the value, translated or converted into US dollars or otherwise, of the earnings of the Group’s PRC subsidiaries and could also cause the amounts due under the Guarantor’s US dollar-denominated debt to increase (measured in Renminbi terms).

The Group’s controlling shareholders are able to control the Group’s corporate policies and direct the outcome of corporate actions.

As at 28 January 2021, approximately 38.32 per cent. of the Guarantor’s outstanding shares were beneficially owned by COLI, which in turn is approximately 56.04 per cent. owned by COHL. COHL is wholly owned by CSCECL, a company listed on the Shanghai Stock Exchange since 2009, approximately 56.31 per cent. of which was owned (as at the date of this Offering Circular) by its parent company, CSCEC. CSCEC is a state-owned construction group that is one of the 97 core state-owned enterprises under the direct supervision of the State-owned Assets Supervision and Administration Commission (“SASAC”) of the State Council of PRC government. The Guarantor, therefore, is ultimately controlled by CSCEC. See “*Relationship with CSCEC, CSCECL, COHL and COLI*” in this Offering Circular. Subject to compliance with applicable laws, by maintaining such ownership, CSCEC, CSCECL, COHL and COLI are able to control the Group’s corporate policies, appoint and/or replace some of the Group’s directors and officers and vote on corporate actions requiring shareholders’ approval if there is no conflict of interest. While receiving strong support from COLI and CSCEC, the Guarantor enjoys a high degree of autonomy in its daily operation and has fostered the Group’s long-term sustainable development. However, the strategic goals and interests of CSCEC, CSCECL, COHL and COLI may not always be aligned with the Group’s strategy and interests and could reduce the level of management flexibility that would otherwise exist with a more diversified

shareholder base. No assurance can be given that the interests of the Group's controlling shareholders will be the same as those of the holders of the Notes or that such support will continue to be available in the future.

The Group's success depends on the continuing efforts of its senior management team and other key personnel and its business may be harmed if the Group loses their services.

The Group's future success depends heavily on the continuing services of the members of its senior management team. If one or more of the Group's senior executives or other key personnel are unable or unwilling to continue in their present positions, the Group may not be able to replace them easily or at all, its business may be disrupted and its financial condition, results of operations and prospects may be materially and adversely affected. Competition for senior management and key personnel is intense while the pool of qualified candidates is very limited, and the Group may not be able to retain the services of senior executives or other key personnel, or attract and retain high-quality senior executives or other key personnel in the future. Furthermore, the Group may lose the services of senior executives or other key personnel if the Guarantor's controlling shareholders choose to shuffle the management teams of such shareholders' subsidiaries or otherwise choose to change the composition of the Guarantor's management and key personnel team. In addition, if any member of the senior management team or any other key personnel joins a competitor or forms a competing company, the Group may lose customers and key professionals and staff members, which may in turn materially and adversely affect the Group's business position and results of operations.

The terms on which mortgages are available, if at all, may affect the Group's sales levels.

Most of the Group's purchasers rely on mortgages to fund their purchases. An increase in interest rates may significantly increase the cost of mortgage financing, thus reducing the attractiveness of mortgages as a source of financing for property purchases and adversely affecting the affordability of residential properties. In addition, the PRC government and commercial banks may also increase 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. In recent years, to curtail the overheating of the PRC property market, the PRC government implemented a series of measures to tighten mortgage financing, including (i) raising the minimum down payment to 30 per cent. for all first-time home purchasers using mortgage financing the purchaser is buying the property as a primary residence of which the building area is not more than 90 sq.m., and requiring commercial banks in China to suspend mortgage loans to customers for their third residential property purchases and beyond, or to any non-residents who cannot provide proof of local tax or social security insurance payments for more than a one-year period; (ii) limiting the number of homes that local residents can buy in a specified period; (iii) requiring a minimum down payment of at least 20 per cent. where a first-time home purchaser (including his or her spouse and minor children) uses housing reserves to buy an ordinary home for self-use with a unit floor area of less than 90 sq.m., or at least 30 per cent. where the unit floor area is more than 90 sq.m.; (iv) requiring a minimum down payment of at least 50 per cent. with a minimum lending interest rate of 110 per cent. of the benchmark rate for a second-time home purchaser using housing reserves; (v) stipulating that the second housing reserve loan will only be available to families whose per capita living area is below the average in the locality and such loan is only used to purchase an ordinary home for self-use in order to improve living conditions; and (vi) stipulating that loans from housing reserves to families for their third residential property and beyond are suspended. Since the first quarter of 2015, PRC government has adjusted several credit policies on the real estate market, such as (i) lowering the minimum down payment to 40 per cent. for the family that owns a residential property and has not paid off its existing mortgage loan applying for a new mortgage loan to purchase another ordinary residential property for self-use to improve living conditions; (ii) lowering the minimum down payment to 30 per cent. for the family that owns a residential property and has paid off its existing mortgage loan applying for a second housing reserve loan to buy another residential property to improve living conditions. In February 2016, the PBOC and the China Banking Regulatory Commission (the "CBRC", which has been incorporated into the newly-established China Bank and Insurance Regulatory Commission) issued the Circular of the People's Bank

of China and the China Banking Regulatory Commission on Issues concerning Adjusting the Individual Housing Loan Policies (中國人民銀行、中國銀行業監督管理委員會關於調整個人住房貸款政策有關問題的通知), according to which in the cities without restrictive measures for house purchase, the minimum down payment for the purchase shall, in principle, be 25 per cent. of the house price with regard to the individual mortgage loans to resident households for the first-time purchase of ordinary residential houses, and the said percentage may be lowered by 5 percentage points in different regions; for resident households that own a residential house with unsettled house mortgage loans while applying for individual mortgage loans again to purchase ordinary residential houses to improve living conditions, the minimum down payment for the purchase shall be at least 30 per cent. of the corresponding house price. See “*PRC Regulation – Mortgages of Real Estate*”. For commercial property buyers, banks are no longer allowed to finance the purchase of any pre-sold properties. The minimum down-payment for commercial property buyers has increased to 50 per cent. of the purchase price, with minimum mortgage loan interest rates at 110 per cent. of the relevant the PBOC benchmark one-year bank lending interest rate and maximum maturities of no more than 10 years of which the commercial banks have flexibility based on their internal risk assessment. In addition, mortgagee banks may not lend to any individual borrower if the monthly repayment of the anticipated mortgage loan would exceed 50 per cent. of the individual borrower’s monthly income or if the total debt service of the individual borrower would exceed 55 per cent. of such individual’s monthly income.

In March 2017, local governments in certain major cities in the PRC, such as Beijing, Hangzhou and Hebei, introduced further policies to restrain property purchases for specialisation purposes and refrain property prices from rising too quickly. Such policies include suspending the provision of individual housing loans with the term of more than 25 years, raising the minimum percentage of down payment of the purchase price and strictly restricting purchasers from acquiring second (or more) residential property. If the availability or attractiveness of mortgage financing is reduced or limited, many of the Group’s prospective customers may not be able to purchase the Group’s properties and, as a result, the Group’s business, liquidity and results of operations could be materially and adversely affected.

In line with industry practice, the Group provides guarantees to banks for mortgages they offer to purchasers. If there are changes in laws, regulations, policies and practices that would prohibit property developers from providing guarantees to banks in respect of mortgages offered to property purchasers and these banks would not accept any alternative guarantees by other third parties, or if no third party is available in the market to provide such guarantees, it may become more difficult for property purchasers to obtain mortgages from banks during pre-sales. Such difficulties in financing could result in a substantially lower rate of pre-sales of the Group’s properties, which could adversely affect its business, financial condition and results of operations. The Group cannot assure investors that such changes in laws, regulations, policies or practices will not occur in the future, and such changes may materially and adversely affect the Group’s business, financial position and results of operations.

Certain of the Group’s businesses are conducted through associates and joint ventures.

The Group has substantial investment in associates and joint ventures that develop, own and operate properties in the PRC. The Group has historically maintained a certain level of control over the projects through ownership of a controlling interest or management in order to impose established financial control, management and supervisory techniques. However, property investment and development in the PRC may often involve the participation of local partners in the PRC, and associates and joint ventures in the PRC may involve special risks or problems associated with associates and joint ventures partners, including, among other things, reputational issues, inconsistent business interests or one or more of the associates and joint ventures partners experiencing financial difficulties and exposing the Group to credit risk. Should such problems occur in the future they could have a material and adverse effect on the Group’s business, financial position, results of operations and prospects.

Any unauthorised use of the China Overseas Property (“中海地產”) trademark may adversely affect its business.

The Group uses COLI’s brand name “China Overseas Property” (“中海地產”) in the PRC pursuant to a trademark license agreement. The Group relies on the PRC intellectual property and anti-unfair competition laws and contractual restrictions to protect COLI’s brand name. The Group’s management believes COLI’s brand and trademarks, and other intellectual property rights are important to the success of the Group’s business. Any unauthorised use of COLI’s brand, trademarks and other intellectual property rights or termination of the abovementioned trademark license agreement could harm the Group’s competitive advantages and business. Historically, the PRC has not protected intellectual property rights to the same extent as certain other countries, and infringement of intellectual property rights continues to pose a serious risk of doing business in the PRC. Monitoring and preventing unauthorised use is difficult. The measures taken by the Group to protect its intellectual property rights may not be adequate. Furthermore, the application of laws governing intellectual property rights in the PRC and abroad is uncertain and evolving, and could involve substantial risks to the Group. If the Group is unable to adequately protect COLI’s brand, trademarks and other intellectual property rights, its reputation may be harmed and its business, financial position and results of operations may be adversely and materially affected.

The Group is subject to uninsured risks.

The Group maintains insurance coverage on all of its properties under construction, third party liabilities and employer’s liabilities. The insurance policies generally cover the period from the commencement of construction of the properties by the Group up to the completion of the construction. However, certain types of losses due to events such as war, civil disorder, acts of terrorism, earthquakes, typhoons, flooding, and other natural disasters are not covered as they are either uninsurable or not economically insurable. This practice is consistent with what the Group’s management believes to be the industry practice. Accordingly, there may be circumstances in which the Group will not be covered or compensated for certain losses, damages and liabilities, which may in turn materially and adversely affect its financial position and results of operations.

Any limitation on the ability of the Group’s subsidiaries to pay dividends to the Group could have a material adverse effect on the Group’s ability to conduct business.

The Group operates its business primarily through its operating subsidiaries and relies principally on dividends paid by its subsidiaries for cash requirements, including the funds necessary to service any debt or security the Group may incur, including the Notes. The ability of the Group’s direct and indirect subsidiaries to pay dividends to their shareholders (including the Guarantor and its subsidiary holding companies) is subject to applicable laws and restrictions contained in the debt instruments and obligations of such subsidiaries. Furthermore, under applicable PRC laws, rules and regulations, payment of dividends by the Group’s PRC subsidiaries is permitted only out of their retained earnings, if any, determined in accordance with PRC accounting standards. Under PRC laws, rules and regulations, all of the Group’s PRC subsidiaries are required to set aside at least 10% of their after-tax profit based on PRC accounting standards each year to their respective statutory capital reserve funds until the accumulated amount of such reserves reaches 50% of their respective registered capital. As a result, all of the Group’s PRC subsidiaries are restricted in their ability to transfer a portion of their net income to the Group whether in the form of dividends, loans or advances. Any limitation on the ability of the Group’s subsidiaries to pay dividends to the Group could materially and adversely limit the Group’s ability to grow, pay dividends or otherwise fund and conduct business.

The presentation currencies of certain financial statements of the Group included elsewhere in this Offering Circular may not be directly comparable.

The Group changed its presentation currency from HKD to RMB in the financial year of 2019 to better reflect the underlying performance and position of the Group. See note 3.3 to the 2019 Financial Statements for details. Although the comparative figures in the consolidated statements of financial position as at 31 December 2018, and the consolidated income statement, the consolidated statement of

comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year ended 31 December 2018 have been re-presented in RMB accordingly, the figures in the consolidated statements of financial position as at 31 December 2017, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year ended 31 December 2017 have not been re-presented in RMB. As a result, the Group's financial information as at and for the year ended 31 December 2017 may therefore not be directly nor entirely comparable against the Group's financial information as at and for the year ended 31 December 2018 or the Group's financial information for the year ended 31 December 2019. Investors should therefore exercise caution when making comparisons against the Group's historical financial figures in light of the above.

RISKS RELATING TO THE PRC

The PRC government's control of currency conversion may limit the Group's ability to utilise its cash effectively.

The Renminbi cannot be freely converted into any other foreign currency, and conversion and remittance of foreign currencies are subject to PRC foreign exchange regulations. The Group cannot assure that it will have sufficient foreign exchange to meet its foreign exchange requirements. Under the current PRC foreign exchange control system, foreign exchange transactions under the current account conducted by the Group, including the payment of interest, do not require advance approval from the SAFE, but the Group is required to present relevant documentary evidence of such transactions and conduct such transactions at designated foreign exchange banks within the PRC that have the licenses to carry out foreign exchange business. Foreign exchange transactions under the capital account conducted by the Group, however, must be approved by or registered in advance with SAFE or its local counterparties. Any insufficiency of foreign exchange may restrict the Company's ability to obtain sufficient foreign exchange for dividend payments to shareholders or satisfy other foreign exchange requirements. If the Group is unable to obtain the relevant approvals or complete such registrations, its capital expenditure plans and, consequently, the Group's ability to grow its business, could be adversely affected. Moreover, changes in PRC foreign exchange regulations may materially and adversely affect the Group's ability to transfer funds to, and receive dividends from its PRC subsidiaries.

Policy initiatives in the financial sector to further tighten lending requirements for property developers may limit the Group's flexibility and ability to use bank loans or other forms of financing to finance the Group's property developments and therefore may require the Group to maintain a relatively high level of internally sourced cash.

The Group's ability to arrange adequate financing for land acquisitions or property developments on terms that will allow it to earn reasonable returns depends on a number of factors, many of which are beyond the Group's control. The PRC government has in recent years taken a number of policy initiatives in the financial sector to further tighten lending requirements for property developers, which, among other things:

- forbid PRC commercial banks from extending loans to property developers to finance land premiums;
- restrict PRC commercial banks from extending loans for the development of luxury residential properties;
- restrict the grant or extension of revolving credit facilities to property developers that hold a large amount of idle land and vacant commodity properties;
- prohibit commercial banks from taking commodity properties that have been vacant for more than three years as security for mortgage loans;

- forbid property developers from using borrowings obtained from any local banks to fund property developments outside that local region;
- require property developers to fund a minimum amount of 20 per cent. (commodity residential property projects) and 30 per cent. (other projects) of the total estimated capital required for the project with internal funds; and
- prohibit property developers from pre-selling uncompleted units in a project prior to achieving certain development milestones.

In addition, the PBOC regulates the lending rates, loan prime rate and reserve requirement ratios for commercial banks in the PRC, which affects the availability and cost of financing from PRC commercial banks. The reserve requirement refers to the amount of funds that banks must hold in reserve with the PBOC against deposits made by their customers. The PBOC has in the past adjusted the benchmark one-year lending rate from time to time. Starting from 20 August 2019, the PBOC introduced the one-year loan prime rate (the “LPR”) and suggested PRC commercial banks to adopt the LPR as the pricing benchmark in the floating rate loan contracts. In addition, PRC commercial banks shall no longer enter into floating rate loan contracts based on the benchmark one-year lending rate since 1 January 2020. As of the date of this offering memorandum, the LPR is 3.85%, and the reserve requirement ratio ranges from 9.5% to 12.5% for commercial banks other than those qualified commercial banks focusing on the loans to rural and small and micro enterprises. We cannot assure you that the PBOC will not raise the LPR or reserve requirement ratios in the future. Any credit tightening measures by the PRC government in recent years could affect the ability of Chinese companies, including property developers, to borrow funds to finance their operation and development plans. As a result, we may not be able to obtain bank loans or funding from other sources in the future on commercially acceptable terms, or at all, which could have a material adverse impact on our business, prospects, financial condition and results of operations.

On 14 September 2015, the NDRC issued the “Notice on Promoting the Reform of the Filing and Registration System for Issuance of Foreign Debt by Corporates” (《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)), or the “NDRC Notice” which came into effect on the same day. According to the NDRC Notice, enterprises domiciled within the PRC and their overseas subsidiaries or branches should file and register with the NDRC prior to issuance of foreign debt instruments with a maturity term of above one year, and report relevant information on the issuance of such foreign debt instruments to the NDRC within ten business days in the PRC after the completion of each issuance.

Furthermore, on 27 June 2018, the NDRC emphasised in a post on its website that the proceeds from bond offerings offshore by PRC property enterprises shall be mainly used for repayments of the debts due and shall be restricted from being used for investments in property projects within or outside China or working capital and it is also expressed that the NDRC plans to further regulate and standardise, among others, the relevant qualifications for the issuance of foreign debt and the usage of funds from such issuance by enterprises. On 12 July 2019, the NDRC published a Notice on Requirements for Foreign Debt Registration Application by Real Estate Enterprises (關於對房地產企業發行外債申請備案登記有關要求的通知) on its website which imposes more restrictions on the use of proceeds of foreign debts incurred by real estate developers. According to the notice, the use of proceeds of foreign debt incurred by a real estate developer is limited to refinancing its medium to long term offshore debts which will become due within one year, and the real estate developer is required to specify in the documents for application of foreign debt registration with the NDRC, the details of such medium to long term offshore debts to be refinanced, such as amount, maturity date and whether such medium to long term offshore debts were registered with the NDRC. The real estate developer is also required to submit a commitment letter to the NDRC regarding the authenticity of its foreign debt issuance. If a real estate developer fails to comply with these restrictions, it may be blacklisted and prevented from obtaining foreign debt registrations in the future.

The Group cannot assure investors that the PRC government will not introduce other initiatives which may limit the Group's access to capital resources. The foregoing and other initiatives introduced by the PRC government may limit the Group's flexibility and ability to use bank loans or other forms of financing to finance the Group's property developments and therefore may require the Group to maintain a relatively high level of internally sourced cash. As a result, the Group's business, financial condition and results of operations may be materially and adversely affected.

Property development in the PRC is still at an early stage and lacks adequate infrastructure support.

Property development in the PRC is still at 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 fluctuation in property prices. The Group cannot predict how much and when demand will develop, as many social, political, economic, legal and other factors may affect the development of the market. The level of uncertainty is increased by limited availability of accurate financial and market information, as well as the overall low level of transparency in the PRC.

In addition, risk of property oversupply is increasing in parts of the PRC, where property investment, trading and speculation have become quite active. In the event of actual or perceived oversupply, property prices may fall significantly and the Group's revenue and results of operations will be adversely affected.

The PRC property market is heavily regulated and subject to frequent introduction of new regulations, including further measures by the PRC government to slow down the growth of the property sector, which may adversely affect property developers.

Along with the economic growth in the PRC, investments in the property sector have increased significantly in the past few years. In response to concerns over the increase in property investments, the PRC government has introduced various policies and measures to curtail property developments, including:

- requiring state-owned land use rights obtained after 2002 to be sold by competitive bidding, public auction or public trading through land exchanges, thus potentially increasing the land acquisition costs of property developers;
- requiring real estate developers to fund at least 20 per cent. of the total investment amount of any property development project designated as affordable housing projects and ordinary commodity housing projects with their own capital and at least 25 per cent. of the total investment amount of other real estate projects;
- restricting the change of land use rights, in particular, the conversion of rural and agricultural land use rights into property development purposes;
- limiting the monthly mortgage payment to 50 per cent. of an individual borrower's monthly income and limiting all monthly debt service payments of an individual borrower to 55 per cent. of his or her monthly income;
- suspending land supply for villa construction and restricting land supply for high-end residential property construction;
- requiring that at least 70 per cent. of the land supply approved by any local government for residential property development during any given year must be used for developing low- to medium-cost and small- to medium-size units for sale or as low-cost rental properties;

- requiring that at least 70 per cent. of the total development and construction area of residential projects approved or constructed on or after 1 June 2006 in any administrative jurisdiction must consist of units with a unit floor area of less than 90 sq.m. and that projects which have received project approvals prior to this date but have not obtained construction permits must adjust their planning in order to comply with this new requirement, with the exception that municipalities under direct administration of the PRC central government and provincial capitals and certain other cities may deviate from such ratio under special circumstances upon approval from the PRC Ministry of Construction (currently known as the PRC MOHURD);
- since 29 September 2010, requiring commercial banks to temporarily suspend the grant of mortgage loans to any third-time (or beyond) home buyers if they deem it appropriate according to the risks involved, and to suspend the grant of mortgage loans to any non-local home buyers who are unable to provide local tax payment certificate or social security contributions covering a period of one year or more; permitting local governments to, based on actual circumstances, impose temporary restrictions during a certain period of time on the number of properties that can be purchased. Since 30 September 2010, a number of cities in the PRC have issued measures to restrict the number of properties which may be purchased by residents, where the property prices are unreasonably high, increasing unreasonably fast or property supply is in short;
- for a buyer of commercial/residential dual-purpose properties, increasing the minimum down payment to 45 per cent. of the purchase price of the underlying property, with the other terms similar to those for commercial properties;
- prohibiting commercial banks from extending any loan to a property development project unless all of the “four permits” (land use right certificate, construction land planning permit, construction work planning permit and construction project building permit) have been obtained;
- limiting the grant or extension of revolving credit facilities to property developers that hold a large amount of idle land and vacant commodity properties to further strengthen the administration and regulation of the land and construction of real property. If an enterprise develops land in violation of contract or leaves the land idle for one year due to its own reasons, the administration authorities of land and resources will prohibit bidders associated with such enterprise and its controlling shareholders from engaging in land bidding activities;
- effective from 1 January 2010, imposing a business tax levy on the entire sales proceeds from the resale of non-ordinary residential properties of which the holding period is shorter than five years; allowing such business tax to be levied on the difference between the price for such resale and the original purchase price in the event that an individual sells a non-ordinary residential property after holding it for five years or longer, or sells an ordinary residential property after holding it for less than five years; and imposing no sales tax for any individual who sells an ordinary residential property after holding it for five years or longer;
- requiring any instalment payments of land premium as agreed in the land grant contract between the relevant municipal or county administrative authority and the grantee, in general, to be made in full within one year; in the case of a special project recognised by the relevant local authority, the instalment payments may be made in full within two years. The first instalment must account for at least 50 per cent. of the total land premium;

- requiring the deposit for land auction or bidding to be not less than 20 per cent. of the base price. After the deal of land transfer has been reached, the land transfer agreement shall be signed within 10 business days, 50 per cent. of the land premium shall be paid within one month after the signing of the land transfer agreement and the payment of remaining land premium shall be made within one year;
- requiring the relevant municipal or county administrative authority to prohibit a property developer who fails to pay the land premium when due, leaves the land idle, hoards or speculates on land, undertakes land development beyond its capacity, or who fails to perform its obligations under the land use contract from participating in any competitive bidding for land within a certain period of time;
- where the pre-sale permit is yet to be received for a commodity housing project, prohibiting the property developer from receiving any form or disguised form of payment from the purchasers which is in the nature of earnest money or deposit; requiring real estate developers to disclose within ten days of the receipt of the pre-sale permit all the properties approved for pre-sale and the price of each property unit, and to sell the properties at the prices which are the same as the prices submitted in the pre-sale proposal;
- disallowing commercial banks to grant loans for newly developed projects and renewal of loan terms to property developers that have records of violation of laws and regulations as a result of, among other things, rendering the land idle, changing the purpose and nature of land, delaying the construction commencement and completion time and refusing to sell out the properties;

Although in the second half of 2008 and in 2009, to combat the impact of the global economic slowdown, the PRC government adopted measures to encourage consumption in the residential property market and to support real estate development, including reducing the minimum capital funding requirement for real estate development from 35 per cent. to 20 per cent. for affordable housing projects and ordinary commodity residential property projects and to 30 per cent. for other property projects, there can be no assurance that the PRC government will not change or modify these temporary measures in the future. For example, in December 2009 and January 2010, the PRC government adjusted some of its policies to enhance regulation in the property market, restrain property purchases for investment or speculation purposes and keep property prices from rising too quickly in certain cities. At the same time, the PRC government abolished certain preferential treatment relating to business taxes payable upon transfers of residential properties by property owners and imposed more stringent requirements on the payment of land premium by property developers.

However, the PRC government also adjusts its regulation of the property market depending on macroeconomic conditions, such as stimulating the property market during and after an economic downturn. For example, as a result of changes in the PRC's economic environment and PRC's property sector's situation, the government lessened the relevant regulations on both the industry and the financing requirement from 2014 to 2016, which led to a recovery in both the sales volumes and the average selling prices in many cities.

There can be no assurance that the PRC government will not adopt additional and more stringent measures, which could further slowdown property development in the PRC and adversely affect the Group's business and prospects.

The PRC government and local government authorities may continue to exercise a substantial degree of control and influence over the PRC economy and property market and any form of government control or newly implemented laws and regulations, depending on the nature and extent of such changes and the Group's ability to make corresponding adjustments, may result in a material

adverse effect on the Group's business and operating results. In particular, decisions taken by the PRC government concerning economic policies or goals that are inconsistent with the Group's interests could adversely affect its operating results.

Increasing competition in the PRC property market may adversely affect the profitability of the Group.

In recent years, a large number of property developers have undertaken property development and investment projects across the PRC. These include overseas property developers (including a number of leading Hong Kong property developers) and local developers in the PRC, many of whom have stronger financial and other capital resources, greater market share or better name recognition than the Group. Intensified competition between property developers may result in increased costs for land acquisition, oversupply of properties and a slowdown in the approval process for new property developments by the relevant government authorities, all of which may adversely affect the business of the Group.

Furthermore, the Group's property development operations face competition from both international and local operators with respect to factors such as location, facilities and supporting infrastructure, service and price. The Group competes with both local and international companies in capturing new business opportunities in the PRC. Some of these companies have significant financial resources, marketing and other capabilities. In the PRC, some of the local companies have extensive local knowledge and business relationships and a longer operational track record in the relevant local markets than the Group, while international companies are able to capitalise on their overseas experience to compete in the PRC markets. There can be no assurance that the Group will be able to compete successfully in the future against its existing or potential competitors or that increased competition with respect to the Group's activities may not have a material adverse effect on the financial condition and operating results of the Group.

The PRC property market has experienced consolidation.

Consolidation in the PRC property market in recent years has resulted in smaller property developers merging or otherwise combining their operations in order to enjoy economies of scale and enhance their competitiveness. Any further consolidation in the property sector in the PRC may intensify competition among property developers and the Group may have to compete with competitors with increased financial and other resources, including, but not limited to, land banks and management capabilities. Such consolidation could potentially place the Group at a competitive disadvantage with respect to land or development negotiations, scale, resources and pricing of its properties.

The PRC's economic, political and social conditions, as well as government policies, could affect the Group's business.

Historically, the Group generated revenue from its operations in the PRC. The Group's financial condition, operating results and prospects will, accordingly, be subject to economic, political and legal developments in the PRC as well as in the economies in the surrounding region.

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

- extent of government involvement;
- level of development;
- growth rate;
- control of foreign exchange; and
- allocation of resources.

While the PRC economy has experienced significant growth in the past 20 years, growth has been uneven, both geographically and among the various sectors of the economy. The PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures benefit the overall PRC economy, but may also have a negative effect on the Group's operations. For example, the Group's financial condition and operating results may be adversely affected by the PRC government's control over capital investments or any changes in tax regulations or foreign exchange controls that are applicable to it.

The PRC economy has been transitioning from a planned economy to a more market-orientated economy. Although in recent years the PRC government has implemented measures emphasising the utilisation of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises, a substantial portion of productive assets in the PRC is still owned by the PRC government. In addition, the PRC government continues to play a significant role in regulating the development of industries in the PRC by imposing top-down policies. It also exercises significant control over the PRC's economic growth through the allocation of resources, controlling the payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. The 18th National Congress of the Communist Party of China, which convened in November 2012, resulted in certain changes to government policies or regulations such as removing the 70 per cent. lower limit of the benchmark rate on loan interest rate and allowing financial institutions to determine the interest rate in their sole discretion based on market conditions.

The PRC's economic growth may slow due to weakened exports and nationwide structural reforms. Moreover, as the PRC is transitioning to a consumption-based economy, the forecast growth rate of the PRC is expected to be significantly lower than its average growth rate over the past thirty years. The economic slowdown and financial market turmoil in the PRC have adversely affected, and may continue adversely affecting, homeowners and potential property purchasers, which may lead to a decline in the general demand for our products and erosion of their sale prices. In addition, any further tightening of liquidity in the PRC financial markets may negatively affect our liquidity. Therefore, if the economic slowdown and financial market turmoil in the PRC continue, our business, financial condition and results of operations may be negatively affected.

The legal system in the PRC is less developed than in certain other countries and laws in the PRC may not be interpreted and enforced in a consistent manner.

As substantially all of our businesses are conducted and substantially all of our assets are located in the PRC, our operations are governed principally by PRC laws and regulations. The PRC legal system is a civil law system. Unlike the common law system, the civil law system is based on written statutes in which decided legal cases have little value as precedents. Since 1979, the PRC government has begun to promulgate a comprehensive system of laws and has introduced many new laws and regulations to provide general guidance on economic and business practices in the PRC and to regulate foreign investment. Progress has been made in the promulgation of laws and regulations dealing with economic matters such as corporate organisation and governance, foreign investment, commerce, taxation and trade. The promulgation of new changes to existing laws and the abrogation of local regulations by national laws could have a negative impact on the business and prospects of the Group and its joint ventures. In addition, as these laws, regulations and legal requirements are relatively recent, their interpretation and enforcement may involve significant uncertainty. The interpretation of PRC laws may be subject to policy changes which reflect domestic political changes. As the PRC legal system develops, the promulgation of new laws, changes to existing laws and the pre-emption of local regulations by national laws may have an adverse effect on the Group's prospects, financial condition and operating results.

Depending on the way an application or case is presented to a government agent and on the government agent itself, we may receive less favourable interpretations of laws and regulations than our competitors. In addition, the PRC legal system is based in part on government policies and internal rules

(some of which are not published on a timely basis or at all) that may have a retroactive effect. As a result, we may not be aware of our violation of these policies and rules until after the violation occurs. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention.

It may be difficult to effect service of process upon, or to enforce against, the Guarantor or its directors or members of the Guarantor's senior management who reside in the PRC in connection with judgments obtained from non PRC courts.

Some of our directors and officers reside within the PRC. In addition, substantially all of our assets and substantially all of the assets of our directors and executive officers are located within the PRC. A judgment of a court of another jurisdiction may be reciprocally recognised or enforced in the PRC if that jurisdiction has a treaty with the PRC or if judgments of the PRC courts have been recognised before in that jurisdiction, subject to the satisfaction of any other requirements. The PRC does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United States, the United Kingdom, Japan and many other countries. Therefore, investors may not be able to effect service of process upon us or persons in the PRC, or to enforce judgments from non-PRC courts against us or such persons in the PRC. In addition, recognition and enforcement in the PRC of judgments of a court of any other jurisdiction in relation to any matter not subject to a binding arbitration provision may be extremely difficult.

Natural disasters, acts of God, or recurrence of severe acute respiratory syndrome, or SARS, avian influenza or another widespread public health problem could adversely affect the Group's business, financial condition and results of operations.

Our business is subject to general economic and social conditions in China. Epidemics, natural disasters and other acts of God which are beyond our control may adversely affect the economy, infrastructure and livelihood of the people in China. Some regions in China, including the cities where we operate, are under the threat of epidemics such as the COVID-19 pandemic, the Severe Acute Respiratory Syndrome, or SARS, the H5N1 avian flu or the human swine flu, also known as Influenza A (H1N1), flood, earthquake, sandstorm, snowstorm, fire or drought.

The COVID-19 pandemic which began at the end of 2019 has affected millions of individuals and adversely impacted national economies worldwide, including China. Several cities in China where we have significant land bank and operations had imposed travel restrictions in an effort to curb the spread of the highly infectious COVID-19. As a result, sales offices and construction of our development projects were temporarily shut down. Moreover, supply of our raw materials and productivity of our employees were adversely affected. Our operations, property sales and construction schedule of projects were disturbed. Therefore, the completion of our projects may be delayed and sales might be lower than expected, which might in turn result in substantial increase in our development costs, late delivery of properties or otherwise adversely affect our profitability and cash flows. Further, customers who have previously entered into contracts to purchase properties may default on their purchase contracts if the economic situation further deteriorates as a result of the epidemic. In addition, the COVID-19 outbreak poses risks to the wellbeing of our employees and the safety of our workplace, which may materially and adversely affect our business operation. Our ability to adequately staff, manage and maintain daily operations may be adversely affected if the outbreak continues or further deteriorates. Furthermore, our properties or facilities may be required to be suspended or quarantined, if there were clusters for the COVID-19 cases in our properties or facilities or governmental ordinance to contain the outbreaks. Any of these circumstances will result in material adverse impact on our business, financial condition, results of operations, performance and prospects. Whilst China and some other countries gradually lifted stay-at-home orders and began to resume work and school at varying levels and scopes since March 2020, they still grapple with small scaled outbreaks from time to time such as the situation in the Northern China and Shanghai recently. However, there can be no assurance that this recovery momentum will continue in the future. Governments around the world have continued to impose measures with varying degrees of severity as the COVID-19 situation evolves, such as travel restrictions imposed by the PRC

government on a Northern city in January 2021. Given the uncertainties as to the development of the outbreak at the moment, it is difficult to predict how long these conditions will exist and the extent to which we may be affected.

Past occurrences of epidemics, depending on their scale, have caused different degrees of damage to the national and local economies in China. Another public health crisis in China triggered by a recurrence of SARS or an outbreak of any other epidemics, including, for example, the ongoing COVID-19, especially in the cities where we have operations, may result in material disruptions to our property development and sales and the operation of commercial properties. In addition, the outbreak of communicable diseases, such as the COVID-19 outbreak on a global scale, may affect investment sentiment and result in sporadic volatility in global capital markets or adversely affect China and other economies. Such outbreak has resulted in restrictions on travel and public transportation and prolonged closures of workplaces, which may have a material adverse effect on the global economy. Any material change in the financial markets, the PRC economy or regional economies as a result of these events or developments may materially and adversely affect our business, financial condition and results of operations.

Facts and statistics in this Offering Circular relating to the PRC economy and the PRC real estate industry may not be reliable.

Facts and statistics relating to the PRC economy and the PRC real estate industry contained in this Offering Circular have been compiled from various publicly available official publications and industry related sources which the Issuer has no reason to believe is false or misleading or that any fact has been omitted that would render such information false or misleading. However, the quality or reliability of official publications and sources cannot be guaranteed. In addition, statistics derived from official sources may not be prepared on a comparable basis. While the Issuer and the Guarantor believe that the sources of the information are appropriate sources and have taken reasonable care in extracting and reproducing such information, they have not been independently verified by the Issuer, the Guarantor, any other members of the Group, the Joint Lead Managers, the Trustee, the Agents or any person who controls any of them or any of their respective affiliates, directors, employees, agents, representatives, officers or advisers, and none of them makes any representation as to the accuracy of such facts and statistics. It cannot be assured that such facts and statistics are stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere. Due to possibly flawed or ineffective collection methods or discrepancies between official publications and market practice and other problems, the statistics herein may be inaccurate or may be incomparable to statistics produced for other economies and should not be unduly relied upon by the investors in purchasing the Notes or otherwise.

The Guarantor may be deemed a PRC resident enterprise under PRC Enterprise Income Tax (“EIT”) Law, which may subject it to PRC taxation on its worldwide income. In addition, if the Issuer is deemed as a PRC resident enterprise, it would be required to withhold taxes on interest it pays on the Notes and the investors of the Notes would be required to pay taxes on gains realised from the sale of the Notes.

The Issuer is a Cayman Islands holding company established specifically for the purpose of issuing the Notes, and the Guarantor is a Hong Kong holding company with a substantial part of its operations conducted in the PRC through the Guarantor’s operating subsidiaries. Under PRC EIT Law that took effect on 1 January 2008, as amended in February 2017 and December 2018, and its implementation rules, enterprises established outside the PRC whose “de facto management bodies” are located in the PRC are considered “resident enterprises” for PRC tax law purposes and will generally be subject to the uniform 25 per cent. EIT rate as to their worldwide income. Under the implementation regulations issued by the State Council, relating to PRC EIT Law, a “de facto management body” is defined as the body that has the significant and overall management control over the business, personnel, accounts and properties of an enterprise. The Notice of the State Administration of Taxation on Issues about the Determination of Chinese-Controlled Enterprises Registered Abroad as Resident Enterprises on the Basis of Their Body of Actual Management (《國家稅務總局關於境外注冊中資控股企業依據實際管理機構標

準認定為居民企業有關問題的通知》)(“Circular 82”) issued by the State Administration of Taxation on 22 April 2009, amended on 29 December 2017, provides that a foreign enterprise controlled by a PRC company or a PRC company group will be treated as a “resident enterprise” with a “de facto management body” located within China if all of the followings requirements are satisfied at the same time: (i) the enterprise’s day-to-day operations management is primarily exercised in the PRC, (ii) decisions relating to the enterprise’s financial and human resource matters are made or subject to approval by organisations or personnel in the PRC, (iii) the enterprise’s primary assets, accounting books and records, company seals, board and shareholders’ meeting minutes are located or maintained in the PRC, and (iv) 50 per cent. or more of voting board members or senior executives of the enterprise habitually reside in the PRC. If all of these criteria are met, the relevant foreign enterprises that are controlled by PRC enterprises will be deemed to have its “de facto management” in the PRC and therefore be deemed a PRC “resident enterprise”.

On 1 September 2011, the State Administration of Taxation issued Administration of Taxation of Chinese of Chinese-Controlled Enterprises Registered Abroad as Resident Enterprise (for Trial Implementation)(《境外注冊中資控股居民企業所得稅管理辦法(試行)》), as amended in June 2016 and June 2018, to further prescribe the rules concerning the recognition, administration and taxation of a foreign enterprise “controlled by a PRC enterprise or PRC enterprise group” which shall be treated as a resident enterprise. First, the foreign enterprise may decide on its own whether its de facto management body is located in China based on the criteria set forth in Circular 82, and if it determines so, it shall report to the competent tax bureau to be treated as a resident enterprise. Second, the tax authority may determine whether the foreign enterprise is a resident enterprise through the authority’s investigation. Since certain of the Guarantor’s management is currently based in the PRC and will remain in the PRC in the future, it cannot be assured that the Guarantor will not be considered a PRC “resident enterprise” by the PRC tax authorities. If the Guarantor is deemed to be a PRC resident enterprise, it would be subject to enterprise income tax at a rate of 25 per cent. on its worldwide income accordingly which may have an adverse effect on the net profit or cash flow of the Guarantor.

Separately, there have been no official implementation rules regarding the determination of the “de facto management bodies” for overseas enterprises that are not directly controlled by PRC enterprises. Therefore, whether an overseas enterprise invested or controlled by another overseas enterprise such as the Issuer will be treated by the relevant tax authorities as a PRC resident enterprise remains unclear.

If the Issuer is deemed a PRC resident enterprise, it would be obligated to withhold PRC income tax of up to 7 per cent. on payments of interest and other amounts on the Notes to investors that are non-resident enterprises located in Hong Kong or 10 per cent. on payments of interest and other amounts on the Notes to investors that are non-resident enterprises located outside Hong Kong, unless any lower tax treaty rate is applicable, because the interest and other distributions would be regarded as being derived from sources within the PRC. Similarly, any gain realised by such non-resident enterprise investors from the transfer of the Notes would be regarded as being derived from sources within the PRC and, accordingly, would be subject to a 10 per cent. PRC withholding tax. For more information, see “*Terms and Conditions of the Notes – Taxation*”.

RISKS RELATING TO THE GUARANTEE AND THE NOTES

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

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

- have 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 or incorporated by reference in this Offering Circular or any applicable supplement;

- have 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 the Notes will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes;
- understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant financial markets; and
- be able to evaluate (either alone or with the help of a financial advisor) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

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

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

The Notes and the Guarantee are unsecured obligations.

As the Notes and the Guarantee are unsecured obligations of the Issuer and the Guarantor, respectively, the repayment of the Notes and payment under the Guarantee may be adversely affected if:

- (i) the Issuer or the Guarantor enters into bankruptcy, liquidation, reorganisation or other winding-up proceedings;
- (ii) there is a default in payment under the Issuer's or the Guarantor's future secured indebtedness or other unsecured indebtedness; or
- (iii) there is an acceleration of any of the Issuer's or the Guarantor's indebtedness.

If any of these events were to occur, the Issuer's or the Guarantor's (as the case may be) assets and any amount received from the sale of such assets may not be sufficient to pay amounts due on the Notes.

The Guarantor's obligations under the Guarantee are structurally subordinated to all existing and future liabilities and obligations of each of the Guarantor's subsidiaries.

The Issuer was established by the Guarantor specifically for the purpose of issuing notes (including the Notes) and will on-lend the entire proceeds from the issue of the Notes to the Guarantor, which may in turn on-lend to other members of the Group. The Issuer does not and will not have any assets other than such loan and its ability to make payments under the Notes will depend on its receipt of timely payments under such loan arrangement.

The Guarantor is a holding company and, accordingly, payments under the Guarantee are structurally subordinated to all existing and future liabilities and obligations of each of the Guarantor's subsidiaries (other than the Issuer) and associates. Claims of creditors of such companies will have priority as to the assets of such companies over the Guarantor and its creditors, including holders of the Notes seeking to enforce the Guarantee. As at 30 June 2020, certain assets of the Guarantor and its subsidiaries with an aggregate carrying value of approximately RMB9,154.9 million were pledged to secure for borrowings and banking facilities. The Guarantor's obligations under the Guarantee will not be guaranteed by any of its subsidiaries. The Notes do not contain any restrictions on the ability of the Guarantor or its subsidiaries to incur additional unsecured indebtedness.

The Guarantor's ability to make payments on the Guarantee depends upon receipt of distributions from its subsidiaries, associates and joint ventures.

The Guarantor is primarily a holding company and its ability to make payments under the Guarantee and to make payments to the Issuer under the loan arrangement to fund payments on the Notes depends upon the receipt of dividends, distributions, interest or advances from its wholly-owned or partly-owned subsidiaries, associates and joint ventures. The ability of the subsidiaries, associates and joint ventures of the Guarantor to pay dividends may be subject to applicable laws and regulations. The outstanding indebtedness of the subsidiaries of the Guarantor may contain covenants restricting the ability of such subsidiaries to pay dividends in certain circumstances for so long as such indebtedness remains outstanding. Moreover, the Guarantor's percentage interests in its subsidiaries, associates and joint ventures could be reduced in the future. See *"Risk Factors – Risks relating to the Group's businesses – Any limitation on the ability of the Group's subsidiaries to pay dividends to the Group could have a material adverse effect on the Group's ability to conduct business."*

The Guarantor's subsidiaries in the PRC may be unable to obtain and remit foreign exchange.

The ability of the Guarantor's PRC subsidiaries to obtain and remit sufficient foreign currency to pay dividends may affect the Guarantor's ability to satisfy its obligations under the Guarantee. The Guarantor's subsidiaries in the PRC must present certain documents to the SAFE, its authorised 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 the Group makes to its PRC subsidiaries, the relevant PRC subsidiary must also present evidence of payment of the 7 per cent. 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 the Guarantor dividends or interest and principal on shareholder loans, which may affect the Guarantor's ability to satisfy its obligations under the Guarantee.

An active trading market for the Notes may not develop.

The Notes may initially be sold to a small number of investors. One or a limited number of investors may purchase a significant portion of the Notes offered. Accordingly, a liquid trading market may not develop or be sustained, in which case investors may not be able to resell their Notes at their fair market value or at all. If such a market were to develop, the Notes could be traded at prices that may be higher or lower than the initial issue price depending on many factors, including prevailing interest rates, the Group's operations and the market for similar securities. The Joint Lead Managers are not obligated to make a market in the Notes and any such market making, if commenced, may be discontinued at any time at the sole discretion of the Joint Lead Managers. Although an application has been made for the listing of the Notes on the Hong Kong Stock Exchange, no assurance can be given as to the liquidity of, or trading market for, the Notes. In addition, the Notes are being offered pursuant to exemptions from registration under the Securities Act and, as a result, investors will only be able to resell their Notes in transactions that have been registered under the Securities Act or in transactions not subject to or exempt from registration under the Securities Act.

There may be less publicly available information about the Guarantor than is available in certain other jurisdictions.

There may be less publicly available information about companies listed in Hong Kong, such as the Guarantor, than is regularly made available by public companies in certain other countries. In addition, the Guarantor's historical financial information in this Offering Circular has been extracted from its financial statements prepared in accordance with HKFRS, which differ in certain respects from IFRS and generally accepted accounting principles in other jurisdictions ("GAAPs") which might be material to the financial information contained in this Offering Circular. In making an investment decision, investors must rely upon their own examination of the Guarantor, the terms of the offering and the Guarantor's financial information, and should consult their own professional advisers for an understanding of the differences between HKFRS and IFRS or between HKFRS and other GAAPs and how those differences might affect the financial information contained in this Offering Circular.

The ratings assigned to the Notes may be lowered or withdrawn in the future.

The Notes are expected to be assigned a rating of "Baa2" by Moody's and "BBB" by Fitch. The ratings address the Issuer's and the Guarantor's ability to perform their respective 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. The Group cannot assure investors that a rating 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. Neither the Issuer nor the Guarantor has any 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 adversely affect the market price of the Notes.

The Guarantor may not be able to raise the funds necessary to finance the purchase of Notes upon occurrence of a Change of Control at the option of the holder.

Following the occurrence of a Change of Control, Noteholders may require the Issuer to redeem their Notes. See "*Terms and Conditions of the Notes – Redemption and Purchase – Redemption upon Change of Control*". The source of funds for any such redemption would be the Group's available cash or third-party financing. However, there is no assurance that the Issuer or the Guarantor would have sufficient funds at that time to make the required redemption of the Notes. In addition, agreements to which the Guarantor is a party at that time may restrict or prohibit such a payment.

The Notes may be redeemed by the Issuer prior to maturity.

The Notes are subject to optional redemption by the Issuer at the Early Redemption Amount. An optional redemption feature is likely to limit the market value of the Notes. During any period when the Issuer may elect to redeem Notes, the market value of the Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period. The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

The Notes may be redeemed at the Issuer's option for taxation reasons.

The Issuer has the right to redeem the Notes, in whole but not in part, at their principal amount together with any unpaid accrued interest thereon to but excluding the date fixed for redemption if it (or, if the Guarantee was called, the Guarantor) has or will become obligated to pay additional amounts in the event of certain changes affecting taxes of any Relevant Jurisdictions as further described in Condition 9 of the Terms and Conditions. See "*Terms and Conditions of the Notes – Redemption and Purchase – Redemption for Taxation Reasons*" in this Offering Circular.

The date that the Issuer elects to redeem the Notes may not accord with the preference of individual holders, which may be disadvantageous to holders in light of market conditions or the individual circumstances of the holder of the Notes. Additionally, an investor may not be able to reinvest the redemption proceeds in comparable securities at an effective yield at the same level as that of the Notes.

The Issuer may issue additional Notes in the future.

The Issuer may, from time to time, and without the consent of the Noteholders, create and issue further Notes (see “*Terms and Conditions of the Notes – Further Issues*”) or otherwise raise additional capital through such means and in such manner as it may consider necessary. There can be no assurance that such future issuance or capital raising activity will not 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 the Group’s revenues, earnings and cash flows, proposals for new investments, strategic alliances and acquisitions, changes in interest rates, fluctuations in price for comparable companies, government regulations and changes thereof applicable to the Group’s 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 of the Notes. The Group cannot assure you that these developments will not occur in the future. In addition, a large portion of the Notes may be held by a limited number of investors. Such investors may not actively trade the Notes, which may result in limited liquidity of the Notes.

Investors in the Notes may be subject to foreign exchange risks.

The Notes are denominated and payable in US dollar. An investor who measures investment returns by reference to a currency other than US dollar would be subject to foreign exchange risks by virtue of an investment in the Notes, due to, among other things, economic, political and other factors over which the Group has no control. Depreciation of the US dollar against such currency could cause a decrease in the effective yield of the Notes below their stated coupon rates and could result in a loss when the return on the Notes is translated into such currency. In addition, there may be tax consequences for investors as a result of any foreign currency gains resulting from any investment in the Notes.

Restrictive covenants contained in debt agreements of the Group may limit the Group’s ability to incur additional indebtedness and restrict its future operations, and failure to comply with these restrictive covenants may result in defaults under the terms of these agreements, or the Notes, and may also adversely affect the Group’s liquidity, financial condition and results of operations.

Certain debt agreements entered into by members of the Group contain financial restrictions that prohibit such member of the Group from incurring additional indebtedness, creating security or granting guarantees, or limit the occurrence of such activities by reference to a number of financial covenants. If any member of the Group is unable to comply with its current or future obligations under the agreements, there could be a default under the terms of these agreements. In the event of a default under these agreements, the lenders could terminate their commitments to lend, accelerate repayment of the debts, declare all amounts borrowed due and payable or terminate the agreements, as the case may be. Furthermore, some of the debt agreements entered into by members of the Group, including the Notes, contain (or may in the future contain) cross-acceleration or cross-default provisions. The default by the relevant member of the Group under one debt agreement may cause the acceleration of repayment of debt or result in a default under its other debt agreements, including the Notes. As a result, these restrictions in the debt agreements may potentially negatively affect the ability of the relevant member of the Group to respond to changes in market conditions, pursue the business opportunities the Group believes to be desirable, obtain future financing, fund capital expenditures, or withstand a continuing or future downturn in its business. There can also be no assurance that in the event of occurrence of any

acceleration of repayment or default, the relevant member of the Group will have sufficient assets and cash flows to repay in full all of their indebtedness, or that such member would be able to find alternative financing. Even if alternative financing could be obtained, there can be no assurance that it would be on terms that are favourable or acceptable to the Group. Any of these factors could materially and adversely affect the Group's ability to satisfy its obligations under outstanding financial obligations, including the Notes.

Developments in the international financial markets may adversely affect the market price of the Notes.

The market price of the Notes may be adversely affected by declines in the international financial markets and world economic conditions. The market for securities of entities with PRC operations is, to varying degrees, influenced by economic and market conditions in other markets, especially those in Asia. Although economic conditions are different in each country, investors' reactions to developments in one country can affect the securities markets and the securities of issuers in other countries, including the PRC. Since the global financial crisis of 2008 and 2009, the international financial markets have experienced significant volatility, most recently in response to investor concerns over credit availability, liquidity and default risk for several European countries. If such developments are not adequately addressed and investor confidence worsens, volatility in the international financial markets may increase in the future, and the market price of the Notes could be adversely affected.

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

In certain circumstances (including without limitation the giving of notice pursuant to Condition 11 of the Terms and Conditions of the Notes or enforcement pursuant to Condition 12 of the Terms and Conditions of the Notes), the Trustee may (at its sole discretion) request Noteholders to provide an indemnity and/or security and/or prefunding to its satisfaction before it takes any steps and/or actions and/or institute any proceedings on behalf of Noteholders. The Trustee shall not be obliged to take any such steps and/or actions and/or institute any such proceedings if not indemnified and/or secured and/or prefunded to its satisfaction. Negotiating and agreeing to an indemnity and/or security and/or prefunding can be a lengthy process and may affect when such steps and/or actions can be taken or such proceedings can be instituted. The Trustee may not be able to take steps and/or actions and/or institute proceedings, notwithstanding the provision of an indemnity or security or prefunding to it, in breach of the terms of the Trust Deed and/or the Notes and in such circumstances, or where there is uncertainty or dispute as to the applicable laws or regulations and, to the extent permitted by the agreements and the applicable law and regulations, it will be for the Noteholders to take such steps and/or actions and/or institute such proceedings directly.

Modifications and waivers may be made in respect of the Terms and Conditions of the Notes and the Trust Deed by the Trustee or less than all of the holders of the Notes. Decisions that may be made on behalf of all holders of the Notes may be adverse to the interests of individual holders of the Notes.

The Notes contain provisions regarding modification, waivers and substitution, which could affect the rights of Noteholders. The Trust Deed contains provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all holders of Notes, including holders of Notes who did not attend and vote at the relevant meeting and holders of Notes who voted in a manner contrary to the majority. In addition, an Extraordinary Resolution (as defined in the Terms and Conditions of the Notes) in writing signed by or on behalf of the holders of not less than 90 per cent. of the aggregate principal amount of Notes outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of holder of Notes duly convened and held. The Terms and Conditions of the Notes also provide that the Trustee may, without the consent of holders of Notes, subject as provided in the Terms and Conditions of the Notes and the Trust Deed, agree to effect any modification to, or any waiver of the Terms and Conditions of the Notes or the Trust Deed, if to do so is not the opinion of the Trustee materially

prejudicial to the interests of the Noteholders or is in the opinion of the Trustee of a formal, minor or technical nature or to correct a manifest error or to comply with mandatory provisions of law. Any such modification, authorisation or waiver shall be binding on the holders of Notes.

The Notes will initially be represented by a Global Certificate and holders of a beneficial interest in a Global Certificate must rely on the procedures of the relevant Clearing System.

The Notes will be represented by beneficial interests in a Global Certificate. Such Global Certificate will be registered in the name of a nominee for, and deposited with, a common depository for Euroclear and Clearstream (the “Clearing Systems”). Except in the circumstances described in the Global Certificate, investors will not be entitled to receive definitive Certificates. The Clearing Systems will maintain records of the beneficial interests in the Global Certificate.

While the Notes are represented by the Global Certificate, investors will be able to trade their beneficial interests only through the Clearing Systems. While the Notes are represented by the Global Certificate, the Issuer will discharge its payment obligations under the Notes by making payments to the relevant Clearing System for distribution to their account Noteholders.

A holder of a beneficial interest in a Global Certificate must rely on the procedures of the relevant Clearing System to receive payments under the Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Certificate.

Noteholders of beneficial interests in the Global Certificate will not have a direct right to vote in respect of the Notes. Instead, such Noteholders will be permitted to act only to the extent that they are enabled by the relevant Clearing System to appoint appropriate proxies.

Additional procedures may be required to be taken to bring English law governed matters or disputes to the Hong Kong courts and the Noteholders would need to be subject to the exclusive jurisdiction of the Hong Kong courts.

The Terms and Conditions and the transaction documents are governed by English law, whereas parties to these documents have submitted to the exclusive jurisdiction of the Hong Kong courts. In order to hear English law governed matters or disputes, Hong Kong courts may require certain additional procedures to be taken. Compared to other similar debt securities issuances in the international capital markets where the relevant holders of the debt securities would not typically be required to submit to an exclusive jurisdiction, the holders of the Notes will be deemed to have submitted to the exclusive jurisdiction of the Hong Kong courts, and thus the holder’s ability to initiate a claim outside of Hong Kong will be limited.

The insolvency laws of the Cayman Islands, Hong Kong and other local insolvency laws may differ from those of another jurisdiction with which holders of the Notes are familiar.

As the Issuer is incorporated under the laws of the Cayman Islands and the Guarantor is incorporated under the laws of Hong Kong, an insolvency proceeding relating to the Issuer, would involve the insolvency laws of the Cayman Islands or Hong Kong, as the case may be, the procedural and substantive provisions of which may differ from comparable provisions of other jurisdictions with which the holders of the Notes are familiar.

The Guarantor conducts substantially all of its business operations in China. The Guarantor and certain of its PRC subsidiaries, as equity holders in its PRC subsidiaries, are necessarily subject to the bankruptcy and insolvency laws of China in a bankruptcy or insolvency proceeding involving any such PRC subsidiaries. The PRC laws and regulations relating to bankruptcy and insolvency and the legal proceedings in that regard may significantly differ from those of other jurisdictions with which the holders of the Notes are familiar. You should analyse the risks and uncertainties carefully before you invest in the Notes.

USE OF PROCEEDS

The net proceeds of the issue of the Notes, after deducting the fees and other expenses in connection with the issue of the Notes, will be approximately US\$509.9 million, which are intended to be used by the Guarantor to repay and/or refinance the existing indebtedness of the Group, and for general corporate purposes.

EXCHANGE RATE INFORMATION

THE PRC

From 1994 to 20 July 2005, the official exchange rate for the conversion of the Renminbi to US dollar was generally stable. Although Chinese governmental policies were introduced in 1996 to reduce restrictions on the convertibility of the Renminbi into foreign currency for current account items, conversion of the Renminbi into foreign exchange for capital items, such as foreign direct investment, loans or securities, requires the approval of SAFE and other relevant authorities. On 21 July 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 2 per cent. against the US dollar. The PRC government has since made and in the future may make further adjustments to the exchange rate system. In May 2007, the PBOC increased the floating band for the trading prices in the inter-bank foreign exchange market of the Renminbi against the US dollar from 0.3 per cent. to 0.5 per cent. around the central parity rate. This allowed the Renminbi to fluctuate against the US dollar by up to 0.5 per cent. above or below the central parity rate published by the PBOC. This range was subsequently increased to 1.0 per cent. on 16 April 2012 and to 2.0 per cent. on 14 March 2014. In August 2015 the PBOC devalued the Renminbi, lowering its daily mid-point trading price significantly against the US dollar. According to the announcement that the PBOC published on 11 August 2015, the currency devaluation of the Renminbi was intended to bring the Renminbi's daily mid-point trading price against the US dollar as a benchmark more in line with the market by taking market signals into account. Subsequently, the Renminbi experienced a further depreciation in value against the US dollar. With an increased floating range of the Renminbi's value against foreign currencies and a more market-oriented mechanism for determining the midpoint exchange rates, the Renminbi may further depreciate or appreciate in value against the US dollar or other foreign currencies. The International Monetary Fund announced on 30 September 2016 that, effective 1 October 2016, the Renminbi will be added to its Special Drawing Rights currency basket. The PRC government has since made and in the future may make further adjustments to the exchange rate system.

The following table sets forth information concerning exchange rates between Renminbi and US dollars for the periods indicated:

Period	Noon Buying Rate			
	Period End	Average ⁽¹⁾	High	Low
		(RMB per US\$1.00)		
2016	6.9430	6.6549	6.9580	6.4480
2017	6.5063	6.7350	6.9575	6.4773
2018	6.8755	6.6292	6.9737	6.2649
2019	6.9618	6.9014	7.1786	6.6822
2020	6.5250	6.8878	7.1681	6.5208
Six months ended 30 June	7.0651	7.0322	7.1681	6.8589
July	6.9744	7.0041	7.0703	6.9744
August	6.8474	6.9270	6.9799	6.8474
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	6.5393	6.5705	6.5208
2021				
January (through 22 January)	6.4810	6.4698	6.4810	6.4550

Source: Weekly H.10 statistical release of the Federal Reserve Board

Note:

- (1) Annual averages are calculated by averaging the rates on the last business day of each month during the relevant year. Period averages are calculated by averaging the daily rates during the relevant period.

Hong Kong

The Hong Kong dollar is freely convertible into other currencies, including the US dollar. Since 17 October 1983, the Hong Kong dollar has been linked to the US dollar at the rate of HK\$7.80 to US\$1.00. The Basic Law of Hong Kong (the “**Basic Law**”), which came into effect on 1 July 1997, provides that no foreign exchange control policies shall be applied in Hong Kong. The market exchange rate of the Hong Kong dollar against the US dollar continues to be determined by the forces of supply and demand in the foreign exchange market within a boundary. However, against the background of the fixed rate which applies to the issue of the Hong Kong currency in the form of banknotes, as described above, the market exchange rate has not deviated materially from the level of HK\$7.80 to US\$1.00 since the peg was first established. In May 2005, the Hong Kong Monetary Authority broadened the trading band from the original rate of HK\$7.80 per US dollar to a rate range of HK\$7.75 to HK\$7.85 per US dollar. The Hong Kong government has indicated its intention to maintain the link within that rate range. The Hong Kong government has also stated that it has no intention of imposing exchange controls in Hong Kong and that the HK dollar will remain freely convertible into other currencies, including the US dollar. However, no assurance can be given that the Hong Kong dollar will continue to be linked to the US dollar or at all.

The following table sets forth information concerning exchange rates between the Hong Kong dollar and US dollar for the periods indicated:

Period	Noon Buying Rate			
	Period End	Average	High	Low
		(HK\$ per US\$1.00)		
2016	7.7534	7.7618	7.8270	7.7505
2017	7.8128	7.7950	7.8267	7.7540
2018	7.8305	7.8376	7.8499	7.8043
2019	7.7894	7.8335	7.8499	7.7850
2020	7.7534	7.7562	7.7951	7.7498
Six months ended 30 June	7.7501	7.7608	7.7951	7.7498
July	7.7500	7.7509	7.7538	7.7499
August	7.7501	7.7502	7.7506	7.7499
September	7.7500	7.7500	7.7504	7.7499
October	7.7548	7.7503	7.7548	7.7498
November	7.7522	7.7526	7.7552	7.7505
December	7.7534	7.7519	7.7539	7.7505
2021				
January (through 22 January)	7.7519	7.7536	7.7555	7.7517

Source: Weekly H.10 statistical release of the Federal Reserve Board

Note:

- (1) Annual averages are calculated by averaging the rates on the last business day of each month during the relevant year. Period averages are calculated by averaging the daily rates during the relevant period.

CAPITALISATION

Capitalisation of the Issuer

The authorised share capital of the Issuer is US\$50,000 divided into 50,000 shares of US\$1.00 par value each, of which one share has been issued to the Guarantor and is fully paid.

Capitalisation of the Group

The following table sets out, on a consolidated basis, the capitalisation of the Group as at 31 December 2019, on an actual basis and as adjusted to give effect to the issue of the Notes:

	As at 31 December 2019			
	Actual		As Adjusted ⁽¹⁾	
	(RMB'000)	(unaudited) (US\$'000)	(RMB'000)	(unaudited) (US\$'000)
Short-term borrowings				
Borrowings	11,656,478	1,674,348	11,656,478	1,674,348
Long-term borrowings				
Borrowings	15,611,683	2,242,478	15,611,683	2,242,478
Guaranteed notes payable ⁽²⁾	3,521,449	505,824	3,521,449	505,824
The Notes	–	–	3,564,442	512,000
Total long-term borrowings	<u>19,133,132</u>	<u>2,748,302</u>	<u>22,697,574</u>	<u>3,260,302</u>
Total borrowings ⁽³⁾	<u>30,789,610</u>	<u>4,422,650</u>	<u>34,354,052</u>	<u>4,934,650</u>
Shareholders' equity				
Share capital	5,579,100	801,388	5,579,100	801,388
Reserves	13,966,227	2,006,123	13,966,227	2,006,123
Equity attributable to owners of the Guarantor	<u>19,545,327</u>	<u>2,807,511</u>	<u>19,545,327</u>	<u>2,807,511</u>
Total capitalisation⁽⁴⁾	<u><u>50,334,937</u></u>	<u><u>7,230,161</u></u>	<u><u>53,899,379</u></u>	<u><u>7,742,161</u></u>

Notes:

- (1) Figures in “As Adjusted” columns reflect the aggregate principal amount of the Notes.
- (2) This includes the aggregate principal amount of US\$500 million of 4.875 per cent. notes due 2021 issued by the Issuer and guaranteed by the Guarantor.
- (3) During the period from 1 January 2020 to 31 December 2020, total borrowings increased by approximately RMB9.7 billion.
- (4) Total capitalisation represents the total of short-term borrowings, long-term borrowings and equity attributable to owners of the Guarantor.

Save as indicated above, there has been no material change in the total capitalisation, on a consolidated basis, of the Issuer and the Guarantor from 31 December 2019.

TERMS AND CONDITIONS OF THE NOTES

The following are the terms and conditions of the Notes (as defined below) substantially in the form in which they (subject to modification in accordance with Condition 16 and other than the text in italics) will be endorsed on the definitive Certificates and referred to in the Global Certificate (as defined below).

The US\$512,000,000 2.45 per cent. Guaranteed Notes due 2026 (the “**Notes**”, which expression shall in these terms and conditions (these “**Conditions**”), unless the context otherwise requires, include any further securities issued pursuant to Condition 18 and forming a single series with the Notes) of China Overseas Grand Oceans Finance IV (Cayman) Limited (中國海外宏洋財務IV(開曼)有限公司)(the “**Issuer**”) are constituted by a trust deed (as amended and/or supplemented from time to time, the “**Trust Deed**”) to be dated on or about 9 February 2021 (the “**Issue Date**”) made between the Issuer, China Overseas Grand Oceans Group Limited (the “**Guarantor**”) as guarantor and DB Trustees (Hong Kong) Limited (the “**Trustee**”, which expression shall include its successor(s) as trustee for the holders of the Notes).

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of and definitions in the Trust Deed.

The issue of the Notes and the giving of the Guarantee (as defined below) were authorised by written resolutions of the board of directors of the Issuer dated 29 January 2021 and written resolutions of the board of directors of the Guarantor dated 28 January 2021 and meeting of the executive committee of the Guarantor held on 29 January 2021.

Copies of the Trust Deed and the agency agreement to be dated on or about 9 February 2021 (as amended and/or supplemented from time to time, the “**Agency Agreement**”) made between the Issuer, the Guarantor, Deutsche Bank AG, Hong Kong Branch in its capacity as registrar (the “**Registrar**”, which expression shall include any successor registrar appointed from time to time in connection with the Notes), principal paying agent (the “**Principal Paying Agent**”) and transfer agent (the “**Transfer Agent**”, which expression shall include any successor transfer agent appointed from time to time in connection with the Notes) and any other Agents appointed thereunder, respectively, and the Trustee are available for inspection during normal business hours by the Noteholders at the principal office for the time being of the Principal Paying Agent, being at the date of issue of the Notes at Level 60, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong and at the specified office of each of the Agents, following written request and satisfactory proof of holding. References herein to “**Paying Agents**” includes the Principal Paying Agent, and “**Agents**” means the Principal Paying Agent, the Registrar, the Transfer Agent and any other agent or agents appointed from time to time pursuant to the Agency Agreement with respect to the Notes. The Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the provisions of the Agency Agreement applicable to them.

All capitalised terms that are not defined in these Conditions will have the meanings given to them in the Trust Deed.

1 FORM, DENOMINATION AND TITLE

1.1 Form and Denomination

The Notes are issued in registered form in denomination of US\$200,000 and integral multiples of US\$1,000 in excess thereof. The Notes are represented by registered certificates (“**Certificates**”) and, save as provided in Condition 2.2, each Certificate shall represent the entire holding of Notes by the same holder.

1.2 Title

Title to the Notes passes only by transfer and registration in the Register as described in Condition 2. The holder of any Note will (except as ordered by a court of competent jurisdiction or as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest or any writing on the Certificate (other than the endorsed form of transfer) representing it, or the theft or loss of such Certificate) and no person will be liable for so treating the holder. In these Conditions, “**Noteholder**” or “**holder**” means the person in whose name a Note is registered in the Register.

*Upon issue, the Notes will be represented by a global certificate (the “**Global Certificate**”) registered in the name of a nominee of, and deposited with, a common depositary for Euroclear Bank SA/NV and Clearstream Banking S.A. These Conditions are modified by certain provisions contained in the Global Certificate while any of the Notes are represented by the Global Certificate.*

2 TRANSFERS OF NOTES AND ISSUE OF CERTIFICATES

2.1 Register

The Issuer will cause the register of Noteholders (the “**Register**”) to be kept at the specified office of the Registrar outside the United Kingdom and in accordance with the terms of the Agency Agreement, on which shall be entered the names and addresses of the Noteholders and the particulars of the Notes held by them and of all transfers of the Notes. Each holder shall be entitled to receive only one Certificate in respect of its entire holding of the Notes.

2.2 Transfers

Subject to the Agency Agreement and Conditions 2.5 and 2.6 herein, a Note may be transferred by depositing the Certificate issued in respect of that Note, with the form of transfer on the back of the Certificate duly completed and signed, at the specified office of the Registrar or any of the Transfer Agents and with any other evidence as the Registrar or such Transfer Agent may require to prove the title of the transferor and the authority of the individuals who have executed such form of transfer.

In the case of a transfer of part only of a holding of Notes represented by one Certificate (which shall be in a specified denomination), a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. In the case of a transfer of the Notes to a person who is already a holder, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding. No transfer of title to a Note will be valid unless and until entered on the Register.

Transfers of interests in the Notes evidenced by the Global Certificate will be effected in accordance with the rules of the relevant clearing systems.

2.3 Delivery of new Certificates

Each new Certificate to be issued upon transfer of Notes pursuant to Condition 2.2 shall be made available for delivery within seven business days of receipt of a duly completed form of transfer, surrender of the existing Certificate(s) and provision of any other evidence required by the Transfer Agent or the Registrar pursuant to Condition 2.2. Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer and Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer or otherwise in writing, be mailed by uninsured post at the risk of the holder

entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Transfer Agent or the Registrar (as the case may be) the costs of such other method of delivery and/or such insurance as it may specify.

For the purposes of this Condition, “**business day**” shall mean a day on which banks are open for business in the city in which the specified office of the Registrar or, as the case may be, the Transfer Agent with whom a Certificate is deposited in connection with a transfer is located.

Except in the limited circumstances described in the Global Certificate, owners of interests in the Notes will not be entitled to receive physical delivery of definitive Certificates.

2.4 Formalities free of charge

Registration of transfer of Notes and issuance of new Certificates will be effected without charge by or on behalf of the Issuer or any Agent but upon payment (or the giving of such indemnity and/or security as the Issuer or the relevant Agent may reasonably require) in respect of any tax or other governmental charges which may be imposed in relation to such transfer.

2.5 Closed Periods

No Noteholder may require the transfer of a Note to be registered (i) during the period of 15 days ending on the due date for any payment of principal, Early Redemption Amount (as defined in Condition 8.3) or interest on that Note; (ii) during the period of seven days ending on any Record Date (as defined in Condition 7.1); or (iii) after any such Note has been put for redemption by the relevant holder pursuant to Condition 8.

2.6 Regulations

All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Registrar and the Trustee, and by the Registrar with the prior written approval of the Trustee. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests one following written request and proof of holding to the satisfaction of the Registrar.

3 STATUS OF THE NOTES

The Notes are direct, unconditional, unsubordinated and (subject to the provisions of Condition 5) unsecured obligations of the Issuer and (subject as stated above) rank and will rank *pari passu*, without any preference among themselves, with all other outstanding unsecured and unsubordinated obligations of the Issuer, present and future, but only to the extent permitted by applicable laws relating to creditors' rights.

4 GUARANTEE

4.1 Guarantee

The payment of the principal, Early Redemption Amount and interest in respect of the Notes and all other moneys expressed to be payable by the Issuer under or pursuant to the Notes and the Trust Deed has been unconditionally and irrevocably guaranteed by the Guarantor (the “**Guarantee**”) as set out in the Trust Deed.

4.2 Status of the Guarantee

The obligations of the Guarantor under the Guarantee constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 5) unsecured obligations of the Guarantor and (subject as stated above) rank and will rank *pari passu* with all other outstanding unsecured and unsubordinated obligations of the Guarantor, present and future, but only to the extent permitted by applicable laws relating to creditors' rights.

5 COVENANTS

5.1 Negative Pledge

So long as any Note remains outstanding (as defined in the Trust Deed), the Issuer and the Guarantor will not, and the Guarantor will procure that none of its other Subsidiaries (as defined below in Condition 5.5) (except any Listed Subsidiaries as defined below in Condition 5.5) will, create or permit to subsist any mortgage, charge, pledge, lien or other security interest ("**Security**") upon the whole or any part of its undertaking, assets or revenues present or future to secure the repayment or payment of principal, premium or interest of or on any Relevant Indebtedness (as defined below in Condition 5.5), or to secure any guarantee of or indemnity given in respect of the repayment or payment of principal, premium or interest of or on any Relevant Indebtedness unless, at the same time or prior thereto, the Issuer's obligations under the Notes or, as the case may be, the Guarantor's obligations under the Guarantee (a) are secured equally and ratably therewith or benefit from a guarantee or indemnity in substantially identical terms thereto, as the case may be, or (b) have the benefit of such other security, guarantee, indemnity or other arrangement as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders.

5.2 Notification to NDRC

The Guarantor undertakes to file or cause to be filed with the National Development and Reform Commission (the "**NDRC**") the requisite information and documents in respect of the issuance of the Notes (or any further securities issued pursuant to Condition 18 and forming a single series with the Notes) within the prescribed timeframe in accordance with the Notice on Promoting the Reform of the Filing and Registration System for Issuance of Foreign Debt by Corporates (《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)) promulgated by the NDRC on 14 September 2015 which came into effect immediately and any implementation rules, regulations, certificates, circulars, notices or approvals in connection therewith issued by the NDRC from time to time (the "**NDRC Post-Issuance Filing**"). The Guarantor shall comply with all applicable PRC laws and regulations in relation to the NDRC Post-Issuance Filing.

5.3 Notification of Completion of the NDRC Post-issuance Filing

The Guarantor shall within 15 Registration Business Days (as defined below in Condition 5.5) after submission of such NDRC Post-Issuance Filing provide the Trustee with (i) a certificate in English substantially in the form set out in the Trust Deed signed by an Authorised Signatory (as defined in the Trust Deed) of the Guarantor confirming the submission of the NDRC Post-Issuance Filing and (ii) copies of the relevant documents submitted in respect of the NDRC Post-issuance Filing certified in English as true and complete copies of the originals by an Authorised Signatory of the Guarantor (the items specified in (i) and (ii) together, the "**Registration Documents**"), and the Trustee may rely conclusively without liability to any Noteholder or any other person on any such certificate or document).

In addition, the Guarantor shall procure that within 15 Registration Business Days after the documents comprising the Registration Documents are delivered to the Trustee, the Issuer will give notice to the Noteholders (in accordance with Condition 14 (*Notices*)) confirming the NDRC Post-Issuance Filing. The Trustee and the Agents shall have no obligation or duty to monitor, assist

with or ensure the filing or completion of the NDRC Post-Issuance Filing on or before the deadline referred to above or to verify whether or not the NDRC Post-Issuance Filing is completed or to verify the accuracy, validity and/or genuineness of any certificate, confirmation or other document in relation to or in connection with the NDRC Post-Issuance Filing and/or the Registration Documents or to give notice to the Noteholders confirming the completion of the NDRC Post-Issuance Filing, and neither the Trustee nor any of the Agents shall be liable to Noteholders, the Issuer, the Guarantor or any other person for not doing so.

5.4 Issuer's activities

The Issuer shall not, and the Guarantor will procure that the Issuer will not, carry on any business activity whatsoever other than in connection with the issue of the Notes or any other debt securities and any other activities reasonably incidental thereto (such activities shall, for the avoidance of doubt, include the on-lending of the proceeds of the issue of the Notes or any other debt securities to any other Subsidiaries of the Guarantor).

5.5 Interpretation

For the purposes of these Conditions:

- (a) **“Listed Subsidiary”** means, at any time, any Subsidiary of the Guarantor the ordinary voting shares of which are at such time listed on the Hong Kong Stock Exchange or any other stock exchange or securities market;
- (b) **“PRC”** means the People's Republic of China, which for the purposes of these Conditions, shall not include Hong Kong, Macau and/or Taiwan;
- (c) **“Registration Business Day”** means a day, other than a Saturday, Sunday or public holiday, on which commercial banks are generally open for business in Beijing;
- (d) **“Relevant Indebtedness”** means any present or future indebtedness in the form of, or represented by, notes, bonds, debentures, debenture stock, loan stock, certificates or other securities which are or are capable of being quoted, listed or ordinarily dealt in or traded on any stock exchange, over-the-counter or other securities market issued outside the PRC; and
- (e) **“Subsidiary”** means, in relation to the Issuer or the Guarantor, any company or entity (i) in which the Issuer or, as the case may be, the Guarantor holds a majority of the voting rights, interests or units or (ii) of which the Issuer or, as the case may be, the Guarantor is a member and has the right to appoint or remove a majority of the board of directors or (iii) of which the Issuer or, as the case may be, the Guarantor is a member and controls a majority of the voting rights, interests or units or (iv) which is accounted for and consolidated in the audited consolidated accounts of the Issuer or, as the case may be, the Guarantor, as a subsidiary pursuant to applicable Hong Kong Financial Reporting Standards or International Financial Reporting Standards, and includes any company which is a Subsidiary of a Subsidiary of the Issuer or, as the case may be, the Guarantor.

6 INTEREST

6.1 Interest Rate and Interest Payment Dates

The Notes bear interest on their outstanding principal amount from and including the Issue Date at the rate of 2.45 per cent. per annum, payable semi-annually in arrear in equal instalments of US\$12.25 per US\$1,000 in principal of the Notes on 9 February and 9 August in each year, commencing on 9 August 2021 (each an **“Interest Payment Date”**).

6.2 Interest Accrual

Each Note will cease to bear interest from and including its due date for redemption unless, upon due presentation or surrender of the Certificate representing such Note, payment of the principal or, as the case may be, Early Redemption Amount in respect of the Note is improperly withheld or refused or unless default is otherwise made in respect of payment in which event interest will continue to accrue as provided in the Trust Deed. In such event it shall continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant holders, and (b) the day falling seven days after the Trustee or the Principal Paying Agent has notified Noteholders of receipt of all sums due in respect of all the Notes up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant holders under these Conditions).

6.3 Calculation of Broken Interest

Interest in respect of any Note shall be calculated per US\$1,000 in principal amount of the Notes (the “**Calculation Amount**”). The amount of interest payable per Calculation Amount for any period less than a complete Interest Period (as defined below in Condition 6.4) shall be equal to the product of the rate of interest specified above, the Calculation Amount and the relevant day-count fraction determined on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed, rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

*So long as the Notes are represented by a Global Certificate which is held on behalf of Euroclear Bank SA/NV, Clearstream Banking S.A. or any additional or alternative clearing system selected by the Issuer and approved in writing by the Trustee, the Principal Paying Agent and the Registrar (the “**Alternative Clearing System**”), the interests in respect of the Notes shall be calculated based on the aggregate principal amount of the Notes represented by the Global Certificate.*

6.4 Interest Periods

In these Conditions, the period beginning on and including the Issue Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date is called an “**Interest Period**”.

7 PAYMENTS

7.1 Payments in respect of Notes

Payment of principal, Early Redemption Amount and interest will be made by transfer to the registered account of the Noteholder or by US dollar cheque drawn on a bank that processes payments in US dollars mailed to the registered address of the Noteholder if it does not have a registered account. Payments of principal or Early Redemption Amount and payments of interest due otherwise than on an Interest Payment Date will only be made against surrender of the relevant Certificate at the specified office of any of the Agents. Interest on Notes due on an Interest Payment Date will be paid to the holder shown on the register of Noteholders at the close of business on the date (the “**Record Date**”) being the fifteenth day before the relevant Interest Payment Date.

For the purposes of this Condition 7, a Noteholder’s “**registered account**” means the US dollar account maintained by or on behalf of it with a bank that processes payments in US dollars, details of which appear on the Register at the close of business, in the case of principal, Early Redemption Amount and interest due otherwise than on an Interest Payment Date, on the second

Business Day (as defined below in Condition 7.4) before the due date for payment and, in the case of interest due on an Interest Payment Date, on the relevant Record Date, and a Noteholder's registered address means its address appearing on the Register at that time.

Notwithstanding the foregoing, so long as the Global Certificate is held on behalf of Euroclear Bank SA/NV, Clearstream Banking S.A. or an Alternative Clearing System, each payment in respect of the Global Certificate will be made to the person shown as the holder in the 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 25 December and 1 January.

7.2 Payments subject to Applicable Laws

Payments in respect of principal, Early Redemption Amount and interest on Notes are subject in all cases to (i) any fiscal or other laws and regulations applicable in the place of payment, but without prejudice to the provisions of Condition 9 and (ii) if applicable, any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the "Code") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 9) any law implementing an intergovernmental approach thereto.

7.3 No commissions

No commissions or expenses shall be charged to the Noteholders in respect of any payments made in accordance with this Condition.

7.4 Non-Payment Business Days

Where payment is to be made by transfer to a registered account, payment instructions (for value the due date or, if that is not a Business Day (as defined below), for value the first following day which is a Business Day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed (uninsured and at the risk and, if mailed at the request of the holder otherwise than by ordinary mail, expense of the holder), on the due date for payment (or, if it is not a Business Day, the immediately following Business Day) or, in the case of a payment of principal and Early Redemption Amount or a payment of interest due otherwise than on an Interest Payment Date, if later, on the Business Day on which the relevant Certificate is surrendered at the specified office of an Agent.

Noteholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due if the due date is not a Business Day, if the Noteholder is late in surrendering its Certificate (if required to do so) or if a cheque mailed in accordance with this Condition arrives after the due date for payment.

In this Condition 7, "**Business Day**" means a day (other than a Saturday, a Sunday or a public holiday) on which commercial banks and foreign exchange markets are open for business in New York City and Hong Kong and, in the case of presentation of a Certificate, in the place in which the Certificate is presented.

7.5 Partial Payments

If the amount of principal, Early Redemption Amount or interest being paid on the relevant due date for payment for the Notes is less than the amount due, the Registrar will annotate the Register with a record of the amount of principal, Early Redemption Amount or interest in fact paid and will (if so requested in writing by the Issuer or a Noteholder) issue a new Certificate with a principal amount equal to the remaining unpaid outstanding principal amount.

7.6 Agents

The names of the initial Agents and their respective initial specified offices are set out in the Trust Deed. The Agents act solely as agents of the Issuer and (to the extent provided in the Agency Agreement) the Trustee, and do not assume any obligation or relationship of agency or trust for or with any Noteholder or by way of electronic consents communicated through the electronic communications systems of the relevant clearing system(s) in accordance with their operating rules and procedures by or on behalf on the Noteholders. The Issuer and the Guarantor reserve the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of any Agent and to appoint additional or other Agents provided that:

- (a) there will at all times be a Principal Paying Agent;
- (b) there will at all times be a Registrar which will maintain the Register outside the United Kingdom;
- (c) so long as the Notes are listed on The Stock Exchange of Hong Kong Limited and if The Stock Exchange of Hong Kong Limited so requires, there will be a Paying Agent and a Transfer Agent with a specified office in Hong Kong; and
- (d) notice of any termination or appointment and of any changes in specified offices will be given to the Noteholders promptly by the Issuer in accordance with Condition 14.

8 REDEMPTION AND PURCHASE

8.1 Redemption at Maturity

Unless previously redeemed or purchased and cancelled as provided below, the Issuer will redeem the Notes at their principal amount on 9 February 2026 (the “**Maturity Date**”).

8.2 Redemption for Taxation Reasons

If the Issuer (or the Guarantor, as the case may be) satisfies the Trustee immediately before the giving of the notice referred to below in this Condition 8.2 that:

- (a) as a result of any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction (as defined in Condition 9), or any change in, or amendment to, the application or official interpretation of the laws or regulations of a Relevant Jurisdiction, which change or amendment becomes effective on or after 2 February 2021 either (i) the Issuer would be required to pay additional amounts as provided or referred to in Condition 9 or (ii) if the Guarantee were called, the Guarantor would be required to pay such additional amounts; and
- (b) the requirement cannot be avoided by the Issuer or, as the case may be, the Guarantor taking reasonable measures available to it,

(unless notice has already been given to the Noteholders for redemption of the Notes under Condition 8.3) the Issuer may at its option, having given not less than 30 nor more than 60 days’ notice to the Noteholders in accordance with Condition 14 (which notice shall be irrevocable), redeem all the Notes, but not some only, at any time at their principal amount together with interest accrued to but excluding the date of redemption, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or, as the case may be, the Guarantor would be obliged to pay such additional amounts, were a payment in respect of the Notes then due. Prior to the publication of any notice of redemption pursuant to this Condition 8.2, the Issuer shall deliver to the Trustee (i) a certificate signed by two directors of the Issuer or, as the case may be, the Guarantor stating that the requirement referred to in (a) of this Condition 8.2 will apply on the next Interest Payment Date and cannot be avoided by the

Issuer or, as the case may be, the Guarantor taking reasonable measures available to it and setting out details of such obligation and (ii) an opinion of independent legal advisers of recognised standing to the effect that the Issuer or, as the case may be, the Guarantor has or will become obliged to pay such additional amounts as a result of such change or amendment, and the Trustee shall be entitled to accept such certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent set out above in this Condition 8.2, in which event they shall be conclusive and binding on the Noteholders.

8.3 Optional Redemption

The Issuer may, at any time upon giving not less than 30 nor more than 60 days' notice (an "**Optional Redemption Notice**") to Noteholders in accordance with Condition 14 (which notice shall be irrevocable), redeem the Notes, in whole but not in part, at a redemption amount (the "**Early Redemption Amount**") equal to:

- (a) (in the case of an Optional Redemption Date falling before 9 November 2025 (being three months before Maturity Date)) the Make Whole Amount as of the Optional Redemption Date; or
- (b) (in the case of an Optional Redemption Date falling on or after 9 November 2025 (being three months before Maturity Date)) their principal amount, plus unpaid interest, if any, accrued to but excluding such Optional Redemption Date.

8.4 Redemption upon Change of Control

Following the occurrence of a Change of Control (as defined below), the holder of each Note will have the right at such holder's option, to require the Issuer to redeem all, or some only, of that holder's Notes on the Change of Control Redemption Date (as defined below) at their principal amount together with accrued interest. To exercise such right, the holder of the relevant Note must complete, sign and deposit at the specified office of any Paying Agent a duly completed and signed notice of redemption, in the form for the time being current, obtainable from the specified office of any Paying Agent (the "**Change of Control Redemption Notice**") together with the Certificate evidencing the Notes to be redeemed by not later than 30 days following a Change of Control, or, if later, 30 days following the date upon which notice thereof is given to Noteholders by the Issuer in accordance with Condition 14. The "**Change of Control Redemption Date**" shall be the fourteenth day after the expiry of such period of 30 days after the later of a Change of Control or the date upon which notice of a Change of Control is given to Noteholders by the Issuer in accordance with Condition 14 as referred to above.

A Change of Control Redemption Notice, once delivered, shall be irrevocable and the Issuer shall redeem the Notes the subject of Change of Control Redemption Notices delivered as aforesaid on the Change of Control Redemption Date.

Neither the Trustee nor any of the Agents shall be required to take any steps to ascertain whether a Change of Control or any event which could lead to the occurrence of a Change of Control has occurred, and none of them shall be liable to Noteholders or any other person for any failure to do so.

The Issuer, failing whom the Guarantor, shall give notice to Noteholders in accordance with Condition 14 and to the Trustee in writing by not later than 14 days following the first day on which it becomes aware of the occurrence of a Change of Control, which notice shall specify the procedure for exercise by holders of their rights to require redemption of the Notes pursuant to this Condition 8.4 and shall give brief details of the Change of Control.

For the purposes of this Condition 8.4:

“**Control**” means (i) the legal or beneficial ownership or control of not less than 38.32% of the voting rights of the issued share capital of the Guarantor or (ii) the right to appoint and/or remove all or the majority of the members of the Guarantor’s board of directors or other governing body, whether obtained directly or indirectly, and whether obtained by ownership of share capital, the possession of voting rights, contract or otherwise;

a “**Change of Control**” occurs when:

- (i) any Person or Persons acting together acquires or acquire Control of the Guarantor;
- (ii) the Guarantor consolidates with or merges into or sells or transfers all or substantially all of the assets of the Guarantor assets to any other Person;
- (iii) the Guarantor ceases to directly or indirectly own 100% of the voting rights of the issued share capital of the Issuer; or
- (iv) one or more Persons acquires the legal or beneficial ownership of all or substantially all of the Guarantor’s issued share capital.

“**Person**” includes any individual, company, corporation, firm, partnership, joint venture, undertaking, association, organisation, trust, state or agency of a state (in each case whether or not being a separate legal entity) but does not include (a) the Guarantor’s board of directors or any other governing board (b) the Guarantor’s wholly-owned direct or indirect subsidiaries, or (c) China Overseas Land & Investment Limited or any other persons that have, or would be deemed to have, Control of the Guarantor on the Issue Date.

8.5 Purchases

The Issuer, the Guarantor or any of the Guarantor’s other Subsidiaries (as defined above) may at any time purchase Notes in any manner and at any price.

The Notes so purchased, while held by or on behalf of the Issuer, the Guarantor or any such Subsidiary, shall not entitle the holder to vote at any meetings of the holders and shall not be deemed to be outstanding for certain purposes, including without limitation for the purpose of calculating quorums at meetings of the holders or for the purposes of Condition 11, Condition 12 and Condition 16.

8.6 Cancellations

All Notes which are (a) redeemed or (b) purchased by or on behalf of the Issuer, the Guarantor or any of the Guarantor’s other Subsidiaries will forthwith be cancelled, and accordingly may not be held, reissued or resold.

8.7 Notices Final

Upon the expiry of any notice as is referred to in Condition 8.2 or Condition 8.3 the Issuer shall be bound to redeem the Notes to which the notice refers in accordance with the terms of such Condition.

8.8 Interpretation

As used in these Conditions:

- (a) **“Independent Investment Bank”** means an independent investment bank of international repute (acting as an expert) selected by the Guarantor and approved in writing by the Trustee for the purposes of performing any of the functions expressed to be performed by it under these Conditions;
- (b) **“Make Whole Amount”** will be the greater of (x) 100 per cent. of the principal amount of the Notes so redeemed and, (y) the sum of the then present values of the remaining scheduled payments of principal and interest on the Notes (not including any interest accrued on the Notes to, but excluding, the Optional Redemption Date) discounted to the Optional Redemption Date on a semi-annual basis (assuming a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the actual number of days elapsed) at the Treasury Yield plus a Redemption Margin, plus in each case (x) or (y) above, any interest accrued and unpaid on the Notes to, but excluding, the Optional Redemption Date. The Make Whole Amount will be calculated by the Independent Investment Bank.
- (c) **“New York Business Day”** means, for the purposes of this Condition 8, a day on which commercial banks are open for business in New York City.
- (d) **“Optional Redemption Date”** means the date on which the Notes shall be redeemed at the option of the Issuer as specified in the Optional Redemption Notice.
- (e) **“Redemption Margin”** is 0.25 per cent. per annum.
- (f) **“Redemption Rate”** is the average of the four quotations given by the Reference Dealers of the mid-market annual yield to maturity of the Reference Security on the fifth New York Business Day before the Optional Redemption Date at 3:00 p.m. (New York time).
- (g) **“Reference Dealer”** means each of the four investment banks of recognised standing which are primary U.S. Government securities dealers in New York City, jointly selected by the Issuer and the Guarantor in good faith and notified in writing to the Trustee by the Issuer or the Guarantor, and their respective successors, or market makers in pricing corporate bond issues.
- (h) **“Reference Security”** means an interest-bearing U.S. Treasury security selected by the Independent Investment Bank (as defined in the Trust Deed) as having an actual or interpolated maturity comparable with the Remaining Maturity (as defined below), or if the Independent Investment Bank (as defined in the Trust Deed) in its discretion considers that such similar security is not in issue, such other interest-bearing U.S. Treasury security as the Independent Investment Bank may determine to be appropriate for determining the Reference Rate.
- (i) **“Treasury Yield”** means:
 - (i) the yield that represents the average for the week immediately preceding the date on which such yield is calculated, derived from the most recently published statistical release designated “H.15” or any successor publication which is published weekly by the Board of Governors of the Federal Reserve System, available on the world-wide-website of the Board of Governors Federal Reserve System at <http://www.federalreserve.gov/releases/h15/>, or any successor site, or, failing which, on Bloomberg pages PX1, PX2 and PX3 and which established a yield for actively traded United States Treasury securities adjusted to constant maturity under the caption

“Treasury Constant Maturities”, with a maturity comparable to the time period between the Optional Redemption Date and the Maturity Date (the “**Remaining Maturity**”), or, if no maturity falls within three months before or after such time period, yields for the two published maturities most closely corresponding to such time period shall be determined and the Treasury Yield shall be interpolated or extrapolated from such yields on a straight-line basis, rounding to the nearest month; or as such aforesaid yield is displayed on the Reuters screen FRBCMT page (or such other page which may replace that page on that service or a successor service); or

- (ii) in the event that such yield referred to in paragraph (i) above does not appear in such statistical release or any successor publication, site, page servicer or any successor thereto during the week preceding the date on which the Independent Investment Bank determines the Early Redemption Amount (which shall be the fifth New York Business Day before the Optional Redemption Date), the Redemption Rate.

9 TAXATION

9.1 Payment without Withholding

All payments in respect of the Notes by or on behalf of the Issuer or the Guarantor shall be made free and clear of, and without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature (“**Taxes**”) imposed, levied, collected, withheld or assessed by or on behalf of any of the Relevant Jurisdictions, unless the withholding or deduction of the Taxes is required by law. In that event, the Issuer or, as the case may be, the Guarantor will pay such additional amounts as may be necessary in order that the net amounts received by the Noteholders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Notes in the absence of the withholding or deduction; except that no additional amounts shall be payable in relation to any payment in respect of any Note:

- (a) presented for payment by or on behalf of a holder who is liable to the Taxes in respect of the Note by reason of his having some connection with any Relevant Jurisdiction other than the mere holding of the Note; or
- (b) (in the case of payment of principal or interest (other than interest due on an Interest Payment Date)) if the Certificate in respect of such Note is presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that a holder would have been entitled to additional amounts on presenting the same for payment on the last day of the period of 30 days assuming (whether or not such is in fact the case) that day to have been a Business Day (as defined in Condition 7).

Neither the Trustee nor any Agent shall be responsible for paying any tax, duty, charges, withholding or other payment referred to in this Condition 9 or for determining whether such amounts are payable or the amount thereof, and none of them shall be responsible or liable for any failure by the Issuer, the Guarantor, any Noteholder or any third party to pay such tax, duty, charges, withholding or other payment in any jurisdiction or to provide any notice or information to the Trustee or any Agent that would permit, enable or facilitate the payment of any principal, premium (if any), interest or other amount under or in respect of the Notes without deduction or withholding for or on account of any tax, duty, charge, withholding or other payment imposed by or in any jurisdiction.

9.2 Interpretation

In these Conditions:

- (a) **“Relevant Date”** means the date on which the payment first becomes due but, if the full amount of the money payable has not been received by an Agent or the Trustee on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect has been duly given to the Noteholders by the Issuer in accordance with Condition 14; and
- (b) **“Relevant Jurisdiction”** means the Cayman Islands or Hong Kong or, in the event that the Issuer or the Guarantor is organised or resident (or deemed to be organised or resident) for tax purposes therein, the PRC (which for this purpose, excludes Hong Kong, Macau and Taiwan) or any political subdivision or any authority therein or thereof having power to tax to which the Issuer or the Guarantor becomes subject in respect of payments made by it of principal, Early Redemption Amount and interest on the Notes.

9.3 Additional Amounts

Any reference in these Conditions to any amounts in respect of the Notes shall be deemed also to refer to any additional amounts which may be payable under this Condition or under any undertakings given in addition to, or in substitution for, this Condition pursuant to the Trust Deed.

10 PRESCRIPTION

Claims in respect of principal, Early Redemption Amount and interest will become prescribed unless made within 10 years (in the case of principal and Early Redemption Amount) and five years (in the case of interest) from the Relevant Date, as defined in Condition 9.

11 EVENTS OF DEFAULT

11.1 Events of Default

The Trustee at its discretion may, and if so requested in writing by the holders of at least 25 per cent. in principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution of the Noteholders shall (subject in each case to being indemnified and/or secured and/or pre-funded to its satisfaction), (but, in the case of the happening of any of the events described in Condition 11.1(b) to Condition 11.1(d) inclusive (other than the winding up or dissolution of the Issuer or the Guarantor) and Condition 11.1(e) to Condition 11.1(h) and Condition 11.1(k) inclusive below, only if the Trustee shall have certified in writing to the Issuer and the Guarantor that such event is, in its opinion, materially prejudicial to the interests of the Noteholders) give notice to the Issuer and the Guarantor that the Notes are, and they shall accordingly forthwith become, immediately due and repayable at their principal amount, together with accrued interest as provided in the Trust Deed, in any of the following events (**“Events of Default”**):

- (a) if default is made in the payment of any principal, Early Redemption Amount or interest due in respect of the Notes or any of them and the default continues for a period of 7 days in the case of principal or Early Redemption Amount or 14 days in the case of interest; or
- (b) if the Issuer or the Guarantor fails to perform or observe any of its other obligations under these Conditions or the Trust Deed and (except in any case where the Trustee considers the failure to be incapable of remedy, when no continuation or notice as is hereinafter mentioned will be required) the failure continues for the period of 30 days following the service by the Trustee on the Issuer or the Guarantor (as the case may be) of notice requiring the same to be remedied; or

- (c) if (i) any Indebtedness for Borrowed Money (as defined below) of the Issuer, the Guarantor or any of the Guarantor's other Subsidiaries becomes due and repayable prematurely by reason of an event of default, acceleration or potential event of default (however described); (ii) the Issuer, the Guarantor or any of the Guarantor's other Subsidiaries fails to make any payment in respect of any Indebtedness for Borrowed Money on the due date for payment as extended by any applicable grace period; or (iii) the Issuer, the Guarantor or any of the Guarantor's other Subsidiaries fails to make any payment in respect of any amount payable under any guarantee and/or indemnity given by it in relation to any Indebtedness for Borrowed Money of any other person on the due date for payment as extended by any applicable grace period; provided that no event described in this Condition 11.1(c) shall constitute an Event of Default unless such Indebtedness for Borrowed Money or other related liability due and unpaid, either alone or when aggregated (without duplication) with other amounts of Indebtedness for Borrowed Money and/or other liabilities due and unpaid relative to all (if any) other events specified in (i) through (iii) inclusive of this Condition 11.1(c) which have occurred and are continuing, amounts to at least US\$20,000,000 (or the equivalent thereof in any other currency); or
- (d) if any order is made by any competent court or resolution is passed for the winding up or dissolution of the Issuer, the Guarantor or any of the Guarantor's Principal Subsidiaries, save in the case of any Principal Subsidiary, for (i) any voluntary solvent winding up, liquidation or dissolution; or (ii) any reorganisation whereby the business, undertaking and assets of such Principal Subsidiary are transferred to or otherwise vested in the Guarantor and/or another Subsidiary of the Guarantor; and in each case, for the purposes of reorganisation on terms approved in writing by an Extraordinary Resolution of the Noteholders; or
- (e) if the Issuer, the Guarantor or any of the Guarantor's Principal Subsidiaries ceases or (through an official action of the board of directors of the Guarantor or, as the case may be, the relevant Principal Subsidiary) threatens to cease to carry on all or any substantial part of its business (save in the case of any Principal Subsidiary, where the undertaking and assets of such Principal Subsidiary are transferred to or otherwise vested in the Issuer or the Guarantor (as the case may be) or another of their respective Subsidiaries) or the Issuer, the Guarantor or any of the Guarantor's Principal Subsidiaries stops payment of, or is unable to, or admits inability to, pay, its debts (or any class of its debts) as they fall due or is adjudicated or found bankrupt or insolvent; or
- (f) if any Security (as defined in Condition 5.1), present or future, created or assumed by the Issuer, the Guarantor or any of the Guarantor's Principal Subsidiaries becomes enforceable and (i) proceedings are initiated against the Issuer, the Guarantor or any of the Guarantor's Principal Subsidiaries, or (ii) the Issuer, the Guarantor or any of the Guarantor's Principal Subsidiaries (or their respective directors or shareholders) initiates or consents to any judicial proceedings relating to itself, under any applicable liquidation, insolvency, composition, reorganisation or other similar laws (including the obtaining of a general moratorium in respect of all or any substantial part of its debts), or (iii) an application is made (or documents filed with a court) for the appointment of an administrative or other receiver, manager, administrator or other similar official, or an administrative or other receiver, manager, administrator or other similar official is appointed, in relation to the Issuer, the Guarantor or any of the Guarantor's Principal Subsidiaries or, as the case may be, in relation to all or any substantial part of the undertaking or assets of any of them or an encumbrancer takes possession of all or any substantial part of the undertaking or assets of any of them, or a distress, execution, attachment, sequestration or other process is levied, enforced upon or put in force against all or any substantial part of the undertaking or assets of any of them, and in any such case (other than the appointment of an administrator) it is not discharged or stayed within 40 days; or

- (g) if the Issuer, the Guarantor or any of the Guarantor's Principal Subsidiaries makes a conveyance or assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally (or any class of its creditors); or
- (h) (i) all or (other than on arm's length terms) any substantial part of the undertaking, assets and revenues of the Issuer, the Guarantor or any of the Guarantor's Principal Subsidiaries is seized or otherwise appropriated by any person acting under the authority of any national, regional or local government or (ii) the Issuer, the Guarantor or any of the Guarantor's Principal Subsidiaries is prevented by any such person from exercising normal control over all or (other than on arm's length terms) any substantial part of its undertaking, assets and revenues; or
- (i) if the Issuer ceases to be a subsidiary wholly-owned and controlled, directly or indirectly, by the Guarantor; or
- (j) if the Notes, the Guarantee, the Trust Deed or the Agency Agreement is or becomes unenforceable, illegal or invalid; or
- (k) if any regulation, decree, consent, approval, licence or other authority necessary to enable the Issuer or the Guarantor to perform its obligations under the Notes, the Guarantee, the Trust Deed or the Agency Agreement or for the validity or enforceability thereof expires or is withheld, revoked or terminated or otherwise ceases to remain in full force and effect or is modified; or
- (l) if any event occurs which, under the laws of any relevant jurisdiction, has or may have an analogous effect to any of the events referred to in Conditions 11.1(d) to (k) above (both inclusive).

11.2 Interpretation

For the purposes of this Condition 11:

- (a) **"Indebtedness for Borrowed Money"** means any indebtedness (whether being principal, Early Redemption Amount, interest or other amounts) for or in respect of any notes, bonds, debentures, debenture stock, loan stock or other securities or any borrowed money or any liability under or in respect of any acceptance or acceptance credit;
- (b) **"Intermediate Single Subsidiary Holding Company"** means a Subsidiary whose sole business is the holding of shares or interest in one other Subsidiary (but, for the avoidance of doubt, not more than one other Subsidiary) and any other activities incidental thereto; and
- (c) **"Principal Subsidiary"** means any Subsidiary of the Guarantor:
 - (i) whose net profit or (in the case of a Subsidiary which itself has subsidiaries) consolidated net profit (before taxation and extraordinary items), as shown by its latest audited income statement are at least 5 per cent. of the consolidated net profit (before taxation and extraordinary items) as shown by the latest published audited consolidated income statement of the Guarantor and its Subsidiaries; or
 - (ii) whose gross assets or (in the case of a Subsidiary which itself has subsidiaries) consolidated gross assets, as shown by its latest audited balance sheet are at least 5 per cent. of the consolidated gross assets of the Guarantor and its Subsidiaries as shown by the latest published audited consolidated balance sheet of the Guarantor and its Subsidiaries;

provided that, in relation to paragraphs (i) and (ii) above:

- (aa) in the case of a corporation or other business entity becoming a Subsidiary after the end of the financial period to which the latest consolidated audited accounts of the Guarantor relate, the reference to the then latest consolidated audited accounts of the Guarantor for the purposes of the calculation above shall, until consolidated audited accounts of the Guarantor for the financial period in which the relevant corporation or other business entity becomes a Subsidiary are published be deemed to be a reference to the then latest consolidated audited accounts of the Guarantor adjusted to consolidate the latest audited accounts (consolidated in the case of a Subsidiary which itself has Subsidiaries) of such Subsidiary in such accounts;
 - (bb) if the accounts of any subsidiary (not being a Subsidiary referred to in proviso (aa) above) are not consolidated with those of the Guarantor, then the determination of whether or not such subsidiary is a Principal Subsidiary shall be based on a pro forma consolidation of its accounts (consolidated, if appropriate) with the consolidated accounts (determined on the basis of the foregoing) of the Guarantor;
 - (cc) in relation to any Subsidiary of the Guarantor, each reference in (i), (ii), (aa) or (bb) above to all or any of the accounts (consolidated or otherwise) of such Subsidiary shall be deemed to be a reference to the relevant audited accounts of such Subsidiary if it customarily prepares accounts which are audited and, if not, to the relevant unaudited accounts of such Subsidiary which shall be certified by any two directors of such Subsidiary as having been properly prepared in accordance with generally accepted accounting principles applicable to such Subsidiary;
 - (dd) if the then latest published audited consolidated income statement of the Guarantor and its Subsidiaries show a net loss for the relevant financial period then there shall be substituted for the words “net profit” or “consolidated net profit”, as the case may be, the words “gross revenues” or “consolidated gross revenues” for the purposes of this definition; and
 - (ee) notwithstanding the foregoing provisions, in the case of an Intermediate Single Subsidiary Holding Company which is not otherwise required to, and does not, prepare consolidated accounts, such Intermediate Single Subsidiary Holding Company shall not be required to prepare consolidated accounts solely for the purpose of determining whether or not it is a Principal Subsidiary but in those circumstances it shall be deemed to be a Principal Subsidiary if its Subsidiary is itself a Principal Subsidiary; or
- (iii) any Subsidiary of the Guarantor to which is transferred the whole or substantially the whole of the assets of a Subsidiary which immediately prior to such transfer was a Principal Subsidiary, provided that the Principal Subsidiary which so transfers its assets shall forthwith upon such transfer cease to be a Principal Subsidiary and the Subsidiary to which the assets are so transferred shall become a Principal Subsidiary at the date on which the first published audited accounts (consolidated, if appropriate) of the Guarantor prepared as of a date later than such transfer are issued unless such Subsidiary would continue to be a Principal Subsidiary on the basis of such accounts by virtue of the provision of paragraph (i) or (ii) above.

A report by two directors of the Guarantor whether or not addressed to the Trustee that in their opinion a Subsidiary of the Guarantor is or is not or was or was not at any particular time or throughout any specified period a Principal Subsidiary may be relied upon by the Trustee without further enquiry or evidence and, if relied upon by the Trustee, shall (in the absence of manifest error or an error which is, in the opinion of the Trustee, proven) be conclusive and binding on all parties.

12 ENFORCEMENT

- 12.1** The Trustee may at any time, at its discretion and without notice, take such steps and/or action and/or institute such proceedings (including lodging an appeal in any proceedings) against or in relation to the Issuer and/or the Guarantor as it may think fit to enforce the provisions of the Trust Deed and the Notes, but it shall not be bound to take any such steps or action or institute any such proceedings in relation to the Trust Deed or the Notes unless (a) it shall have been so directed by an Extraordinary Resolution of the Noteholders or so requested in writing by the holders of at least 25 per cent. in principal amount of the Notes then outstanding, and (b) it shall have been indemnified and/or secured and/or pre-funded to its satisfaction.
- 12.2** No Noteholder shall be entitled to proceed directly against the Issuer or the Guarantor unless the Trustee, having become bound so to proceed, fails so to do within a reasonable period and the failure shall be continuing.
- 12.3** The Trustee may refrain from taking any steps or actions or instituting any proceedings in any jurisdiction if the taking of such steps or actions or the institution of such proceedings in that jurisdiction would, based upon legal advice in the relevant jurisdiction, be contrary to any law of that jurisdiction. Furthermore, the Trustee may also refrain from taking such steps or actions or instituting any such proceedings if it would otherwise render it liable to any person in that jurisdiction or if, 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.

13 REPLACEMENT OF CERTIFICATES

If any Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations or other relevant regulatory authority regulations, at the specified office of the Registrar or such other Transfer Agent as may from time to time be designated by the Issuer for that purpose and notice of whose designation is given to Noteholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security, indemnity and otherwise as the Issuer, the Registrar or the relevant Transfer Agent may require (provided that the requirement is reasonable in light of prevailing market practice). Mutilated or defaced Certificates must be surrendered before replacements will be issued.

14 NOTICES

All notices to the Noteholders will be valid if mailed to them at their respective addresses in the Register maintained by the Registrar or published in a leading newspaper having general circulation in Hong Kong or, if such publication shall not be practicable, in a daily newspaper with general circulation in Asia approved by the Trustee. It is expected that such publication will normally be made in the *Asian Wall Street Journal*. The Issuer shall also ensure that notices are duly given or published in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Notes are for the time being listed. Any notice shall be deemed to have been given on the second day after being so mailed or on the date of publication or, if so published more than once or on different dates, on the date of the first publication.

So long as the Notes are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear Bank SA/NV or Clearstream Banking S.A. or the Alternative Clearing System, notices to the holders of the Notes shall be validly given by the delivery of the relevant notice to Euroclear Bank SA/NV or Clearstream Banking S.A. or the Alternative Clearing System, for communication by it to entitled accountholders in substitution for notification as required by these Conditions.

15 SUBSTITUTION

The Trustee may, but shall not be obliged to, without the consent of the Noteholders, agree with the Issuer and the Guarantor to the substitution in place of the Issuer (or of any previous substitute under this Condition 15) as the principal debtor under the Notes and the Trust Deed by the Guarantor or any of its other Subsidiaries, subject to:

- (a) except in the case of the substitution of the Guarantor, the Notes being unconditionally and irrevocably guaranteed by the Guarantor;
- (b) the Trustee being satisfied that the interests of the Noteholders will not be materially prejudiced by the substitution; and
- (c) certain other conditions set out in the Trust Deed being complied with.

16 MEETINGS OF NOTEHOLDERS, MODIFICATION, WAIVER AND AUTHORISATION

16.1 Meetings of Noteholders

The Trust Deed contains provisions for convening meetings (including by way of tele-conference or video-conference call) of the Noteholders to consider any matter affecting their interests, including the modification or abrogation by Extraordinary Resolution of any of these Conditions or any of the provisions of the Trust Deed. Such a meeting may be convened by the Trustee or the Issuer and shall be convened by the Trustee upon request in writing from Noteholders holding not less than 10 per cent. in aggregate principal amount of the Notes for the time being outstanding and subject to the Trustee being indemnified and/or secured and/or pre-funded to its satisfaction against all costs and expenses. The quorum at any meeting for passing an Extraordinary Resolution will be one or more persons present holding or representing more than 50 per cent. in principal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons present whatever the principal amount of the Notes held or represented by him or them, except that, at any meeting the business of which includes the modification or abrogation of certain of the provisions of these Conditions and certain of the provisions of the Trust Deed, the necessary quorum for passing an Extraordinary Resolution will be one or more persons present holding or representing not less than 66 per cent., or at any adjourned such meeting not less than 25 per cent., of the principal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders will be binding on all Noteholders, whether or not they are present at the meeting.

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

As mentioned in Condition 16.1 above, the Trust Deed prescribes increased quorum requirements for the modification or abrogation by Extraordinary Resolution of some of the Conditions or the provisions of the Trust Deed, including but not limited to, (i) modification of the Maturity Date or

Interest Payment Dates of the Notes; (ii) reduction or cancellation of the amount payable or, modification of the method of calculating the amounts payable in respect of the Notes; (iii) modification or cancellation of the Guarantee; (iv) alteration of the currency of payment of the Notes; and (v) alteration of the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass an Extraordinary Resolution.

16.2 Modification, Waiver, Authorisation and Determination

The Trustee may (but shall not be obliged to) agree, without the consent of the Noteholders, to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Trust Deed, or determine, without any such consent as aforesaid, that any Event of Default or Potential Event of Default (as defined in the Trust Deed) shall not be treated as such (provided that, in any such case, it is not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders) or may agree, without any such consent as aforesaid, to any modification which, in its opinion, is of a formal, minor or technical nature or to correct a manifest error or to comply with any mandatory provision of law.

16.3 Trustee to have Regard to Interests of Noteholders as a Class

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation, determination or substitution), the Trustee shall have regard to the general interests of the Noteholders as a class but shall not have regard to any interests arising from circumstances particular to individual Noteholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Noteholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer, the Guarantor, the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders except to the extent already provided for in Condition 9 and/or any undertaking given in addition to, or in substitution for, Condition 9 pursuant to the Trust Deed.

16.4 Notification to the Noteholders

Any modification, abrogation, waiver, authorisation, determination or substitution shall be binding on the Noteholders and, unless the Trustee agrees otherwise, shall be notified by the Issuer to the Noteholders as soon as practicable thereafter in accordance with Condition 14.

17 INDEMNIFICATION OF THE TRUSTEE AND ITS CONTRACTING WITH THE ISSUER AND THE GUARANTOR

17.1 Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility and liability, including provisions relieving it from taking action unless indemnified and/or secured and/or pre-funded to its satisfaction.

17.2 Trustee Contracting with the Issuer and the Guarantor

The Trust Deed also contains provisions pursuant to which the Trustee, the Agents and their respective affiliates are entitled, *inter alia*, (a) to enter into business transactions with the Issuer and/or the Guarantor and/or any of the Guarantor's other Subsidiaries without accounting for any profit and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer and/or the Guarantor and/or any of the Guarantor's other Subsidiaries, (b) to exercise and enforce its rights, comply with its obligations and perform its duties under or in

relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Noteholders, and (c) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

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

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

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

Neither the Trustee nor any of the Agents shall be under any obligation to ascertain whether any Event of Default, Potential Event of Default (as defined in the Trust Deed) or Change of Control has occurred or to monitor compliance by the Issuer or the Guarantor with the provisions of the Trust Deed, the Agency Agreement or these Conditions.

Each Noteholder shall be solely responsible for making and continuing to make its own independent appraisal of and investigation into the financial condition, creditworthiness, condition, affairs, status and nature of the Issuer or the Guarantor, and the Trustee shall not at any time have any responsibility for the same and no Noteholder shall rely on the Trustee in respect thereof.

18 FURTHER ISSUES

The Issuer is at liberty from time to time without the consent of the Noteholders to create and issue further securities either (a) having the same terms and conditions as the Notes in all respects (or in all respects save for the issue date, the first payment of interest thereon and the timing for complying with the requirements set out in these Conditions in relation to NDRC Post-issuance Filing) and so that the same shall be consolidated and form a single series with the Notes or (b) upon such terms as to ranking, interest, conversion, redemption and otherwise as the Issuer may

determine at the time of the issue. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition 18 and forming a single series with the Notes. Any further securities which are to form a single series with the Notes shall be constituted by a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Noteholders and the holders of notes or securities of other series in certain circumstances where the Trustee so decides.

19 GOVERNING LAW AND SUBMISSION TO JURISDICTION

19.1 Governing Law

The Trust Deed (including the Guarantee), the Notes and any non-contractual obligations arising out of or in connection with these documents are governed by, and will be construed in accordance with, English law.

19.2 Jurisdiction of Hong Kong Courts

Each of the Issuer and the Guarantor has, in the Trust Deed, irrevocably agreed for the benefit of the Trustee and the Noteholders that the courts of Hong Kong are to have exclusive jurisdiction to settle any disputes (including disputes relating to any non-contractual obligations) which may arise out of or in connection with the Trust Deed or the Notes and accordingly has submitted to the exclusive jurisdiction of the Hong Kong courts.

Each of the Issuer and the Guarantor has, in the Trust Deed, waived any objection to the courts of Hong Kong on the grounds that they are an inconvenient or inappropriate forum.

19.3 Appointment of Process Agent

The Issuer has, in the Trust Deed, irrevocably and unconditionally appointed the Guarantor at its registered office at Suites 701-702, 7/F, Three Pacific Place, 1 Queen's Road East, Hong Kong as its agent for service of process in Hong Kong in respect of any Proceedings and have undertaken that in the event of such agent ceasing so to act it will forthwith appoint another person as its agent for that purpose and shall notify the Trustee in writing of such appointment within 30 days of such cessation.

19.4 Sovereign Immunity

Each of the Issuer and the Guarantor has in the Trust Deed irrevocably and unconditionally waived and agreed not to raise with respect to the Trust Deed and the Notes any right to claim sovereign or other immunity from jurisdiction or execution and any similar defence, and has irrevocably and unconditionally consented to the giving of any relief or the issue of any process, including, without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment made or given in connection with any Proceedings (including any Proceedings relating to any non-contractual obligations arising out of or in connection with these presents).

20 RIGHTS OF THIRD PARTIES

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Note, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

THE GLOBAL CERTIFICATE

The Global Certificate contains the following provisions which apply to the Notes in respect of which they are issued whilst they are represented by a Global Certificate, some of which modify the effect of the Terms and Conditions of the Notes. Terms defined in the Terms and Conditions of the Notes have the same meanings in this section.

ACCOUNTHOLDERS

For so long as all of the Notes are represented by a Global Certificate and such Global Certificate is held on behalf of a clearing system, subject as provided in the Trust Deed, each person (other than another clearing system) who is for the time being shown in the records of Euroclear and/or Clearstream (as the case may be) as the holder of a particular aggregate principal amount of the Notes represented by the Global Certificate (each, an “**Accountholder**”) (in which regard any certificate or other document issued by Euroclear or Clearstream (as the case may be) as to the aggregate principal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be deemed to be the holder of such aggregate principal amount of the Notes (and the expression “**Noteholders**” and references to “**holding of Notes**” and to “**holder of Notes**” shall be construed accordingly) for all purposes other than with respect to payments of principal, premium (if any) and interest on the Notes, the right to which shall be vested, as against the Issuer, the Guarantor and the Trustee, solely in the nominee for the relevant clearing system (the “**Relevant Nominee**”) in accordance with and subject to the terms of the Global Certificate. Each Accountholder must look solely to Euroclear or Clearstream, as the case may be, for its share of each payment made to the Relevant Nominee.

CANCELLATION

Cancellation of any Notes following its redemption or purchase by the Issuer, the Guarantor or any of the Guarantor’s other Subsidiaries will be effected by reduction in the aggregate principal amount of the Notes in the register of Noteholders and by the annotation of the appropriate schedule to the Global Certificate.

PAYMENTS

Whilst the Notes are represented by this Global Certificate, each payment will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the Clearing System Business Day immediately prior to the date for payment, where “**Clearing System Business Day**” means a day on which Euroclear and Clearstream are open for business.

Distributions of amounts with respect to book-entry interests in the Notes held through Euroclear or Clearstream will be credited, to the extent received by the Registrar, to the cash accounts of Euroclear or Clearstream participants in accordance with the relevant system’s rules and procedures.

NOTICES

So long as all of the Notes are represented by a Global Certificate and such Global Certificate is held on behalf of a clearing system, notices to Noteholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled Accountholders in substitution for notification as required by the Terms and Conditions of the Notes.

REGISTRATION OF TITLE

Registration of title to the Notes in a name other than that of the Relevant Nominee will not be permitted unless Euroclear or Clearstream, as appropriate, notifies the Issuer and the Guarantor that it is unwilling or unable to continue as a clearing system in connection with the Global Certificate, and in

each case a successor clearing system approved by the Trustee is not appointed by the Issuer and the Guarantor within 90 days after receiving such notice from Euroclear or Clearstream, as relevant. In these circumstances title to a Note may be transferred into the names of holders notified by the Relevant Nominee in accordance with the Terms and Conditions of the Notes, except that Certificates in respect of the Notes so transferred may not be available until 21 days after the request for transfer is duly made.

TRANSFERS

Transfers of book-entry interests in the Notes represented by a Global Certificate will be effected through the records of Euroclear and Clearstream and their respective participants in accordance with the rules and procedures of Euroclear and Clearstream and their respective direct and indirect participants.

NOTEHOLDERS' REDEMPTION

For so long as the Notes are represented by a Global Certificate and such Global Certificate is held on behalf of Euroclear and/or Clearstream, the Noteholder's redemption option in Condition 8.4 may be exercised by any holder of Notes in the relevant giving notice to any Agent in accordance with the standard procedures of Euroclear or Clearstream (which may include notice being given on his instructions by Euroclear or Clearstream or any common depositary for them to any Agent by electronic means) of the principal amount of the Notes in respect of which the option is exercised and presenting or procuring the presentation of the Global Certificate to such Agent for endorsement within the time limits specified in the Terms and Conditions of the Notes.

THE ISSUER

The Issuer was incorporated as an exempted company with limited liability under the Companies Law, as amended of the Cayman Islands on 15 March 2018. The registered office of the Issuer is 89 Nexus Way, Camana Bay, Grand Cayman, KY1-9009, Cayman Islands.

The authorised share capital of the Issuer is US\$50,000, divided into 50,000 ordinary shares of par value US\$1.00 each. One ordinary share has been issued and paid up. All issued ordinary shares will be registered.

The Issuer has no subsidiaries. The one and only issued share in the Issuer is owned by the Guarantor.

The Issuer was established for the purpose of issuing notes and on-lending the proceeds to the Guarantor or its subsidiaries. Since its incorporation, the Issuer has not engaged in any other material activities other than those relating to the following:

- (i) the issue of the US\$500,000,000 4.875 per cent. guaranteed notes due 2021 (the “2021 USD Notes”) and the proposed issue of the Notes and the on-lending of the proceeds thereof to the Guarantor or any other subsidiary of the Guarantor, and
- (ii) the authorisation of documents and agreements entered into in connection with the issue of the 2021 USD Notes and the proposed issue of the Notes referred to in this Offering Circular to which it is or will be a party.

The directors of the Issuer as at the date of this Offering Circular are Mr. Zhuang Yong and Mr. Yang Lin (both of them are also directors of the Guarantor). The business address of the directors is Suites 701-702, 7/F., Three Pacific Place, 1 Queen’s Road East, Hong Kong. The Issuer has no employees.

The directors of the Issuer do not have any interest or short position in the shares, underlying shares or debentures of the Issuer or of any of its subsidiaries.

Under Cayman Islands law, the Issuer is not required to publish interim or annual financial statements. The Issuer has not published, and does not propose to publish, any financial statements. The Issuer is, however, required to keep proper books of account as it is necessary to give a true and fair view of the state of the Issuer’s affairs and to explain its transactions.

THE GUARANTOR

The Guarantor is a property developer with operations and investments in the PRC. The Guarantor was incorporated in Hong Kong on 25 September 1970 as a limited liability company with registration number 21522, and its shares have been listed on the Main Board of the Hong Kong Stock Exchange (stock code: 00081) since 1984. The registered office of the Guarantor is at Suites 701-702, 7/F., Three Pacific Place, 1 Queen's Road East, Hong Kong.

The Guarantor is managed in accordance with its articles of association and with the provisions of the laws of Hong Kong.

The business address of the directors of the Guarantor is at Suites 701-702, 7/F., Three Pacific Place, 1 Queen's Road East, Hong Kong.

As at the date of this Offering Circular, there are no potential conflicts of interest between any duties of the directors of the Guarantor and their private interests and/or other duties.

THE GROUP

OVERVIEW

The Group is a property developer in the PRC. Its main source of revenue is from the development and sale of residential and commercial properties in the PRC. As at 31 December 2019, the Group and its joint ventures had a land bank of approximately 24.0 million sq.m. (with an attributable land bank of 21.9 million sq.m.) in 26 cities in the PRC. In addition to property development, the Group and its joint venture own investment properties which are mainly located in Beijing and Shanghai.

The Group believes it is well placed to benefit from the ongoing infrastructure investment in the PRC and the rapid industrialisation and urbanisation of inland cities as urbanisation and economic growth have been the main drivers of the growth in housing demand in the PRC. With the implementation of governmental policies for nationwide development beyond tier-one and tier-two cities such as the “Western Development Strategy”, the “The Rise of Central China Strategy” and the “Revitalisation of the Northeast Strategy”, the standard of living in the third-tier cities is rising, urban areas are expanding and infrastructure is improving, thereby increasing demand for upgraded housing in third-tier cities.

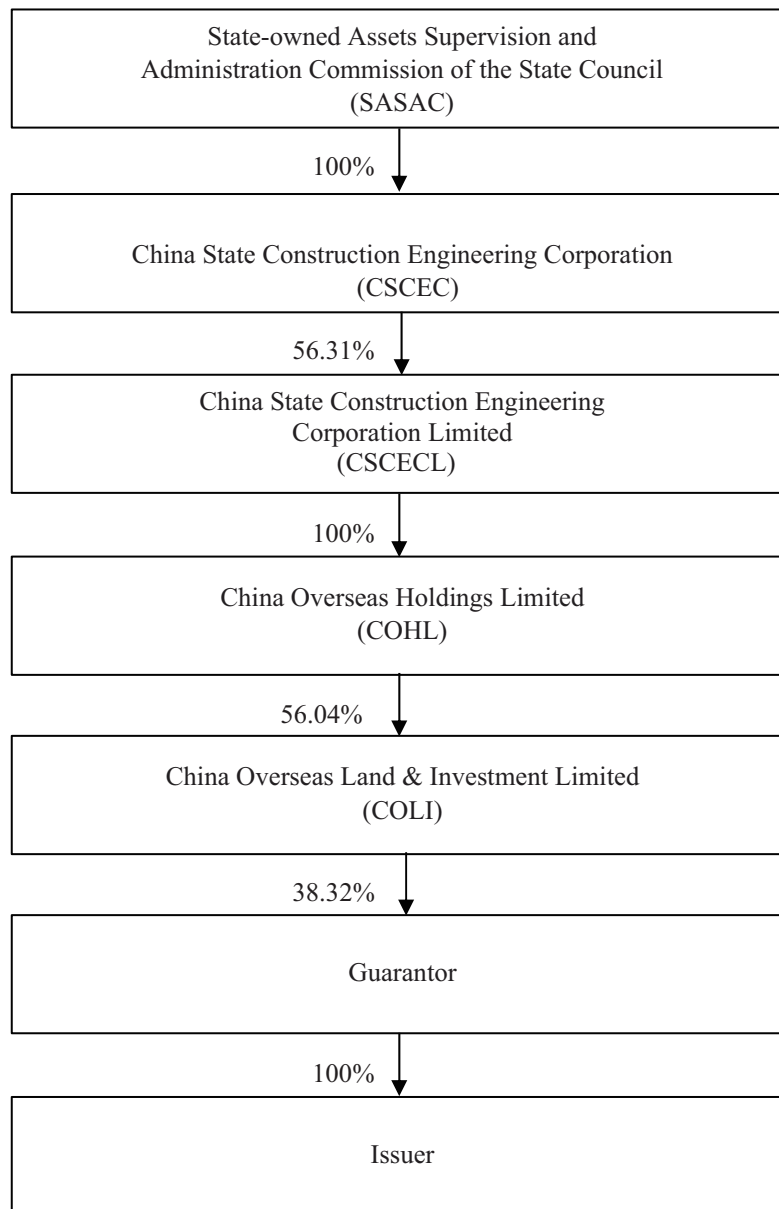
The Group prefers third-tier cities which are already a regional economic centre (or which have the potential to become a regional economic centre due to their close proximity to more developed cities) and which are targeting higher GDP and population growth rates and lower unemployment rates, than the national average. The Group’s plan is to steadily expand in third-tier cities that it has already entered, to rank among the top three developers in those cities and to look for new investment opportunities in other third-tier cities which satisfy its selection criteria.

For the year ended 31 December 2019, the Group’s consolidated revenue and net profit were RMB28,590.9 million and RMB3,497.0 million, respectively.

As at 29 January 2021, the Guarantor had a market capitalisation of RMB13.6 billion. The Guarantor is a constituent of the Hang Seng Composite Index which includes Hang Seng Composite Industry Index – Properties & Construction, the Hang Seng Composite MidCap & SmallCap Index, the Hang Seng Composite SmallCap Index, the Hang Seng Stock Connect Hong Kong Index, the Hang Seng Stock Connect Hong Kong MidCap & SmallCap Index and the Hang Seng Stock Connect Hong Kong SmallCap Index.

Although the Guarantor has been listed on the Hong Kong Stock Exchange (stock code 00081.HK) since 1984, the Guarantor has undergone a transformational change to become one of the largest PRC focused property developers listed on the Hong Kong Stock Exchange. The transformation of the Guarantor began in the first quarter of 2010, when COLI acquired a controlling interest in the Guarantor and the Guarantor changed its name from Shell Electric Mfg. (Holdings) Company Limited to its current name to reflect its new direction. COLI is a major property developer in the PRC whose shares are listed on the Hong Kong Stock Exchange (stock code 00688.HK). COLI is ultimately controlled by the state-owned CSCEC, one of the world’s largest construction contractors and a “core enterprise” under the direct supervision of SASAC of the State Council of the PRC government.

The following chart indicates the shareholding structure of the Group as at 28 January 2021:



For more information, see “*Substantial Shareholders’ and Directors’ Interest*” and “*Relationship with CSCEC, CSCECL, COHL and COLI*”.

RECENT DEVELOPMENTS

Financial Performance

On 15 September 2020, the Guarantor published its unaudited consolidated financial statements as at and for the six months ended 30 June 2020.

The unaudited consolidated financial statements as at and for the six months ended 30 June 2020 have not been audited or reviewed and should not be relied upon to provide the same quality of information associated with information that has been subject to an audit or a review nor taken as an

indication of the expected financial condition and results of operations of the Guarantor for the relevant full financial year ending 31 December 2020. Potential investors should exercise caution when using such information to evaluate the Group's financial condition and results of operations.

Results

	For the six months ended	
	30 June	
	2019	2020
	(unaudited and re-presented) (RMB'000)	(unaudited) (RMB'000)
Revenue	11,057,486	16,109,339
Gross profit	3,875,707	5,264,815
Distribution and selling expenses	(394,380)	(553,044)
Administrative expenses	(345,815)	(475,492)
Total interest expenses	(591,138)	(725,892)
Fair value gain on reclassification of inventories of properties to investment properties	–	8,123
Profit for the period	1,632,009	2,081,390

Financial Position

	As at
	30 June 2020
	(unaudited) (RMB'000)
Restricted cash and deposits	9,246,487
Cash and bank balances	17,090,019
Unutilised bank credit facilities	8,225,100
Short-term borrowings including guaranteed notes payable	15,324,828
Long-term borrowings	21,082,847

Other Financial Data

	As at and for
	the six months
	30 June 2020
	(RMB millions, except margin and ratio data)
Other financial data	
EBITDA ⁽¹⁾	4,426
EBITDA margin (%) ⁽²⁾	27.5

Notes:

(1) EBITDA for the period consists of profit for the period before interest expense and other finance costs, tax, depreciation and amortisation, excluding fair value gain on reclassification of inventories of properties to investment properties, share of results of associates and joint ventures and other income and gains except interest income. EBITDA is not a standard measure under HKFRS. EBITDA is a widely used financial indicator of a company's ability to service and incur debt. EBITDA should not be considered in isolation or construed as an alternative to cash flows, profit for the year or any other measure of financial performance or as an indicator of the Group's operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. In evaluating EBITDA, investors should consider, among other things, the components of EBITDA such as revenue and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. The Group has included EBITDA because it believes that it is a useful supplement to cash flow data as a measure of the Group's performance and its 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 the Group's EBITDA to EBITDA presented by other companies because not all companies use the same definition.

(2) EBITDA margin is calculated by dividing EBITDA by revenue.

The maturities of the Group's bank and other borrowings, including guaranteed notes payable as at 30 June 2020 are set out below:

	As at 30 June 2020
	<i>RMB billions</i>
Bank and other borrowings	
Within one year	15.32
More than one year	21.08
Total bank and other borrowings	36.40

As at 30 June 2020, out of the Group's total bank and other borrowings, 56.5% were denominated in Renminbi, 33.6% were denominated in HK dollars and 9.9% were denominated in US dollars.

Property Development

For the six months ended 30 June 2020, contracted property sales of the Group and its associates and joint ventures amounted to RMB27,867.5 million, representing a 14.5% year-on-year growth compared to RMB24,332.1 million for the six months ended 30 June 2019, for an aggregated contracted area of 2,420,700 sq.m.

During the first half of 2020, the Group entered into six new cities, namely Taizhou (Jiangsu province), Zhenjiang (Jiangsu province), Langfang (Hebei province), Tangshan (Hebei province), Jinhua (Zhejiang province) and Zunyi (Guizhou province). The Group successfully acquired a total of 18 parcels of land, with total development area of approximately 4.1 million sq.m. (attributable to the Group: 3.5 million sq.m.) in the first half of 2020. These land parcels are located in Zibo, Hefei, Huizhou, Yancheng, Lanzhou, Baotou, Xining, Jiujiang, Yinchuan, Shantou and the new cities mentioned above.

As at 30 June 2020, a total land bank of the Group and its associate in China reached approximately 26.3 million sq.m., of which, 0.1 million sq.m. was held by an associate. The land bank attributable to the Group (including the interests in an associate) was approximately 23.7 million sq.m. The Group's land bank was distributed in 33 cities in the PRC as at 30 June 2020.

The following table sets out the total land bank and attributable land bank of the Group and its associate as at 30 June 2020:

No.	City	Total GFA	Attributable GFA
		(^{'000} sq.m.)	(^{'000} sq.m.)
1.	Jilin	1,301.6	1,294.5
2.	Yinchuan	2,702.2	2,398.0
3.	Hefei	1,505.3	1,220.7
4.	Nanning	1,194.6	806.2
5.	Lanzhou	1,345.7	1,152.6
6.	Ganzhou	601.8	601.8
7.	Yancheng	688.3	606.8
8.	Yangzhou	1,208.9	1,208.9
9.	Nantong	822.3	556.9
10.	Changzhou	638.6	638.6
11.	Shantou	2,728.4	2,670.8
12.	Huizhou	1,607.0	1,283.7
13.	Jiujiang	2,010.8	2,010.8
14.	Huangshan	249.5	137.2
15.	Weifang	1,454.5	1,454.5
16.	Guilin	70.4	70.4
17.	Xuzhou	721.2	459.9
18.	Xining	642.4	642.4
19.	Hohhot	737.5	737.5
20.	Baotou	808.2	626.9
21.	Liuzhou	269.4	188.6
22.	Jining	528.3	528.3

No.	City	Total GFA	Attributable GFA
		('000 sq.m.)	('000 sq.m.)
23.	Quanzhou	520.5	520.5
24.	Weinan	131.4	131.4
25.	Qingyuan	180.0	180.0
26.	Shaoxing	106.6	106.6
27.	Zibo	161.2	161.2
28.	Taizhou	225.9	192.0
29.	Zhenjiang	128.6	128.6
30.	Langfang	206.2	206.2
31.	Tangshan	287.7	287.7
32.	Jinhua	213.7	213.7
33.	Zunyi	336.7	235.7
	Total	26,335.4	23,659.6

During the second half of 2020, the Group further acquired 30 parcels of land in 19 cities with total GFA of approximately 7.4 million sq.m. (attributable to the Group: 6.9 million sq.m.).

The following table shows the land parcels acquired by the Group during 2020:

No.	City	Name of Project	Attributable Interest	Land Area	Total GFA	Attributable GFA	Attributable Land premium
			(per cent.)	('000 sq.m.)	('000 sq.m.)	('000 sq.m.)	(RMB million)
1	Taizhou	Hailing District Project	85	99	226	192	905
2	Zibo	Wenchanghu District Project	100	77	161	161	241
3	Hefei	Jingkai District Project	60	106	294	176	1,205
4	Huizhou	Huicheng District Project #1	60	123	498	299	1,220
5	Yancheng	Yannan Gaoxin District Project	35	34	125	44	207
6	Langfang	Anci District Project	100	75	206	206	746
7	Lanzhou	Qilihe District project	100	13	85	85	184
8	Baotou	Kundulun District Project	100	79	230	230	534
9	Xining	Beichuan New District Project	100	86	268	268	1,143
10	Jiujiang	Xunyang District Project	100	10	12	12	51
11	Tangshan	Lunan District Project	100	158	288	288	2,692
12	Hefei	Xinzhan District Project	100	61	128	128	671
13	Yinchuan	Jinfeng District Project #1	100	121	335	335	772
14	Shantou	Longhu District Project #1	100	66	286	286	1,248
15	Jinhua	Wucheng District Project	100	76	214	214	2,398
16	Huizhou	Huicheng District Project #2	60	78	310	186	786
17	Zunyi	Xinpu New District Project	70	114	337	236	275
18	Zhenjiang	Danyang City Huanan Gaoxin District Project #1	100	49	129	129	513
19	Hohhot	Saihan District Project #1	100	39	122	122	439
20	Hohhot	Xincheng District Project #1	100	75	187	187	652
21	Zunyi	Huichuan District Project	80	40	117	94	332
22	Yancheng	Yandu District Project	100	103	355	355	1,679
23	Hohhot	Xincheng District Project #2	100	48	120	120	457
24	Hohhot	Saihan District Project #2	100	56	136	136	782
25	Yinchuan	Jinfeng District Project #2	100	94	212	212	1,155
26	Yinchuan	Jinfeng District Project #3	100	24	66	66	260
27	Hefei	Baohe District Project	100	48	155	155	575
28	Tianshui	Qinzhou District Project	100	63	226	226	1,215
29	Tangshan	Lubei District Project	100	61	191	191	1,701
30	Lanzhou	Chengguan District Project	100	82	372	372	1,807
31	Shantou	Longhu District Project #2	100	105	569	569	1,782
32	Weifang	Fangzi District Project #1	100	92	256	256	359
33	Weifang	Fangzi District Project #2	100	51	131	131	197
34	Jilin	Fengman District Project #1	100	222	610	610	1,424
35	Jilin	Fengman District Project #2	100	47	136	136	292
36	Zhuzhou	Tianyuan District Project #1	100	51	242	242	427
37	Zhuzhou	Tianyuan District Project #2	100	30	129	129	218
38	Zhuzhou	Tianyuan District Project #3	100	62	266	266	439
39	Zhuzhou	Tianyuan District Project #4	100	90	247	247	677
40	Zhuzhou	Tianyuan District Project #5	100	75	299	299	557
41	Zhuzhou	Tianyuan District Project #6	100	112	303	303	683
42	Changzhou	Jintan District Project	100	115	343	343	1,824

No.	City	Name of Project	Attributable	Land Area	Total GFA	Attributable	Attributable
			Interest			GFA	Land premium
			(per cent.)	('000 sq.m.)	('000 sq.m.)	('000 sq.m.)	(RMB million)
43	Zhenjiang	Danyang City Huanan Gaoxin District Project #2	100	70	181	181	743
44	Huizhou	Zhongkai District Project	100	45	185	185	643
45	Ganzhou	Ganxian District Project	100	49	132	132	393
46	Zhanjiang	Xiashan District Project	100	66	271	271	1,060
47	Linyi	Luo Zhuang District Project	100	58	189	189	619
48	Taizhou	Guangling District Project	25	308	689	170	1,031
				3,806	11,569	10,370	40,213

Note:

- (1) Project stake has been adjusted and the land will be developed in form of cooperation project.
- (2) Project stake will be adjusted subject to the completion of filing with the relevant authorities in the PRC and the land will be developed in form of cooperation project. For details, please refer to the announcement of the Company dated 19 November 2020 and the circular of the Company dated 10 December 2020.
- (3) The above table does not include the joint development project in respect of the land situated in Zibo City as disclosed in the announcement of the Company dated 14 October 2020, which is subject to the completion of filing with the relevant authorities in the PRC.

The COVID-19 Pandemic

The COVID-19 pandemic that began at the end of 2019 has affected millions of individuals and caused a significant decline in the overall global and PRC economies. The grave impact has adversely affected the development of the PRC property market, which suffered a critical setback during the first half of 2020, especially in the first quarter, as both construction activities and sales activities were required to be suspended in order to contain the spread of the COVID-19 outbreak. In particular, property sales and the construction schedule of our projects were disturbed. However, the PRC government has taken various measures to manage the COVID-19 situation and to stabilise the economy in the first half of 2020. Meanwhile, the Group has also implemented strict pandemic prevention and controlling measures in its properties and communities in the first half of 2020, which have effectively mitigated the negative impacts arising from the COVID-19 pandemic. Starting from the second quarter of 2020, sales momentum has started to pick up and construction progress is also in the course of catching up. As a result, the Group achieved higher contracted property sales during the first half of 2020 as compared to the corresponding period in 2019.

It is difficult to predict how long the adverse impact of COVID-19 will persist and the extent to which the Group may be affected. We cannot assure you that our business, financial condition and results of operations will not be materially and adversely affected. See “*Risk Factors – Risks Relating to the PRC – Natural disasters, acts of God, or recurrence of severe acute respiratory syndrome, or SARS, avian influenza or another widespread public health problem could adversely affect the Group’s business, financial condition and results of operations*”.

COMPETITIVE STRENGTHS

The Group is a major PRC property developer supported by the well-known national brand of “China Overseas Property” (“中海地產”), focusing on the mid- to high-end real estate development primarily in third-tier cities in the PRC

The Group is COLI’s flagship real estate development platform in third-tier cities in the PRC. Its management believes that emerging third-tier PRC cities have strong growth potential and rigid demand and will continue to benefit from China’s urbanisation, as a result of which the Group determines to focus on mid- to high-end real estate development in these emerging third-tier cities. The Group believes that it is well placed to compete in such emerging third-tier PRC cities which historically have been

dominated by small local developers as the Group has the benefit of COLI's nationally recognised "China Overseas Property" ("中海地產") brand which enjoys a reputation for excellence in development, after-sales service and property management. "China Overseas Property" ("中海地產") is positioned as a brand which aims at "creating beautiful lives together", with the brand concept focused on "quality in both the process and the end products". For 17 consecutive years, "China Overseas Property" ("中海地產") has been listed as "The Leading Real Estate Brand in China", with brand value reaching close to RMB 70.9 billion. The Group's management believes that as a result of the nationwide well-known brand and the focus on third-tier cities, it is better positioned than other developers to overcome the impact of the administrative and credit-tightening measures introduced in recent years by the PRC government to control the growth of the PRC property market.

The Group benefits from strong support from CSCEC, CSCECL, COHL and COLI

Strategically important to COLI's third-tier cities expansion, the Group has received strong support from CSCEC, CSCECL, COHL and COLI since COLI acquired a controlling interest in the Guarantor, fostering the Group's long-term sustainable development. While the Group enjoys a high degree of autonomy in its daily operations, COHL and COLI contribute strong strategic support and experience in the Group's overall corporate planning and policies, for example, in the sourcing, evaluation and planning of the Group's developments, in the appointment of directors and senior management of the Group, and in the planning of the Group's capital expenditure and budgeting. COLI has assigned experienced management to the Guarantor. The Chairman and Executive Director of the Guarantor, Mr. Zhuang Yong, is also a non-executive director and vice chairman of the board of directors of COLI and a director of COHL. The former Chairman and current Non-executive Director of the Guarantor, Mr. Yan Jianguo, is also the chairman and executive director of COLI as well as the chairman and president of COHL. Apart from its nomination of Executive Directors to the Guarantor, COHL and COLI actively support the development of the workforce of the Group at various entities and tiers according to the needs of business development. For example, COHL and COLI have also transferred a number of experienced management personnel to the Group. Further, the Group also benefits from the integrated financing strategy planning with COLI and from the sharing of internal resources. Sharing the master credit lines with major PRC commercial banks, the Group enjoys faster funding draw-downs and preferential borrowing rates. In addition, COLI also shares its raw materials procurement, sales channel, market intelligence and internal research platform with the Group, further improving the Group's operational efficiency. Furthermore, as a demonstration of further support to the Group, COLI has granted the Group the right to sell properties under COLI's "China Overseas Property" ("中海地產") brand.

The Group owns a sizable, diversified and high quality land bank

The Group's management believes that a sizable and high-quality land bank is one of the most important resources for a property developer. The Group's management believes that one of the key factors of the Group's growth has been its ability to acquire sites at competitive prices and at opportune times, thereby securing attractive returns on the properties it develops and sells. Further to the acquisition of property portfolio from COHL in 2019, during the first half of 2020, the Group entered into six new cities, namely Taizhou (Jiangsu province), Zhenjiang (Jiangsu province), Langfang (Hebei province), Tangshan (Hebei province), Jinhua (Zhejiang province) and Zunyi (Guizhou province) with high growth potential to secure its foundation for continued growth. The Group also further acquired parcels of land in Zibo, Hefei, Huizhou, Yancheng, Lanzhou, Baotou, Xining, Jiujiang, Yinchuan and Shantou. Together, the Group successfully acquired a total of 18 parcels of land in the first half of 2020 with total development area of approximately 4.1 million sq.m. (attributable to the Group: 3.5 million sq.m.) for consideration of approximately RMB18,594.8 million. As at 31 December 2019, the Group and its joint ventures had a land bank of approximately 24.0 million sq.m. (with an attributable land bank of 21.9 million sq.m.) in 26 cities in the PRC.

The Group's management believes that the Group has a land bank sufficient for its continuing development for the next several years. The following table sets out the total land bank and attributable land bank of the Group and its joint ventures as at 31 December 2019:

	Total GFA	Attributable	
	('000 sq.m.)	GFA	
	<i>('000 sq.m.)</i>	<i>('000 sq.m.)</i>	
1	Jilin	1,368.3	1,361.3
2	Yinchuan	2,308.3	2,012.9
3	Hefei	1,208.9	1,026.2
4	Nanning	1,239.7	846.9
5	Lanzhou	1,290.7	1,098.6
6	Ganzhou	735.3	735.3
7	Yancheng	661.6	661.6
8	Yangzhou	1,343.1	1,321.1
9	Nantong	823.6	557.7
10	Changzhou	764.8	764.8
11	Shantou	2,749.3	2,675.4
12	Huizhou	910.7	910.7
13	Jiujiang	1,997.9	1,997.9
14	Huangshan	249.5	137.2
15	Weifang	1,782.9	1,782.9
16	Guilin	70.1	70.1
17	Xuzhou	735.6	474.3
18	Xining	639.0	639.0
19	Hohhot	726.9	726.9
20	Baotou	578.4	397.0
21	Liuzhou	269.4	188.6
22	Jining	537.9	537.9
23	Quanzhou	508.3	508.3
24	Weinan	226.7	226.7
25	Qingyuan	180.7	180.7
26	Shaoxing	101.7	101.7
Total	24,009.30	21,941.7	

The Group has a proven track record and in-depth local knowledge

The Group is a property developer with a proven track record of project development in the PRC. The senior management team of the Group has extensive experience in the property development and property investment industries in the PRC. Most members of the senior management team of the Group have worked together for over 20 years. The Group possesses in-depth local expertise, market knowledge and experience which its management believes gives the Group a competitive advantage over some other developers in the PRC property market.

The Group's operations are scalable for further expansion

With a substantial number of properties under development, the Group enjoys the benefits of economies of scale of its design and construction process, customer service and sourcing of raw materials and services. The Group's management believes economies of scale have provided the Group with an advantage in securing the services of reputable contractors of significant scale, negotiating prices with suppliers and contractors and securing finance for its operations at competitive rates, and enabling it to recruit high quality staff. The Group also benefited from market research resources and product design knowledge sharing from COLI. In addition, the Group's management believes that the PRC government's introduction of administrative and credit control measures may present the Group with opportunities to acquire quality projects under development or land from smaller scale property developers or from state-owned enterprises which exit the PRC property market.

The Group is financially strong and has flexible sources of funding

The Guarantor has been listed on the Hong Kong Stock Exchange since 1984, and conducts most of its property development business in the PRC through subsidiaries established in the PRC that are project companies. The Group has access to both international and domestic equity and debt financing

and the ability to tap both sources of funding depending on market conditions, thereby securing the most favourable financing terms and maximising its funding efficiency. As of 30 June 2020, the weighted average borrowing rate is 4.23%. The Group's management believes that the Group's ability to obtain international financing gives it a comparative advantage over some other local competitors in the PRC who may only have access to domestic funding, the availability and costs of which may be affected by any credit control measures introduced by the PRC government. As such, the Group's management believes it has a robust liquidity position supported by access to diversified funding sources.

The Group has taken steps to improve its financial stability and its fund management capabilities. The Group's management believes it is in a strong financial position to continue to develop and grow. The Guarantor has obtained ratings of "Baa2" by Moody's, "BBB-" by S&P and "BBB" by Fitch. Moreover, the Group has a strong cash position with the total available funds of RMB35.9 billion, including restricted cash and deposits of RMB10.7 billion as well as RMB8.5 billion in unutilised bank credit facilities available to the Group as at 31 December 2019.

STRATEGIES

The Group's key business objective is to seek sustainable development by pursuing the following strategies:

Continuing to focus on third-tier cities in the PRC with growth potential and promising returns

The Group's firm vision and commitment is to become a high-growth property developer in the PRC residential property market primarily engaged in emerging third-tier cities with growth potential, targeting the mid- to high-end product range, which the Group believes will generate demand, assuming ongoing economic growth in the PRC in cities such as Changzhou, Hefei, Hohhot, Huizhou, Jilin, Lanzhou, Nanning, Nantong, Shantou, Yancheng, Yangzhou and Yinchuan. These third-tier cities which the Group targets are already a regional economic centre or have the potential to become a regional economic centre due to their close proximity to more developed cities. The Group believes that it is well placed to benefit from ongoing infrastructure investment in the PRC and the rapid industrialisation and urbanisation of inland cities. It plans to expand opportunistically to new cities where its property development criteria are satisfied and to rank among the top three property developers in those cities. The Group will also continue to review appropriate opportunities to partner with large and reputable developers and participate in large-scale property development consortiums in a selective manner to minimise risks and accelerate its business development.

Continuing to leverage the strong support from COLI and its "China Overseas Property" ("中海地產") brand

The Group will continue to leverage the strong support from COLI with respect to overall corporate planning and policies, including the sourcing, evaluation and planning of developments, the appointment of the directors and senior management of the Group, and the Group's capital expenditure and budgeting. The Group will also leverage COLI's "China Overseas Property" ("中海地產") reputation as a brand for quality, after sales service and property management to enhance the Group's market positioning.

Expanding its land bank at reasonably low cost

The Group is focused on enlarging its operating scale and accelerating the pace of its development, in order to benefit from economies of scale. It is therefore of paramount importance that the Group accumulates a large land bank in prime locations at competitive prices as the platform for the Group's growth strategy and investment plans.

Quality and price of the land bank are critical factors in determining profitability of property projects. The Group's management believes that it can build on its position as a major property developer in the PRC and increase its market share by leveraging on its competitive strengths and

ensuring its land investments are fiscally sound. The Group will continue to adopt a disciplined investment approach in acquiring quality land at a reasonably low cost, whether organically or through acquisition opportunities. The Group intends to maintain a quality and sizable land bank in the PRC and will continue to review appropriate opportunities to replenish its land bank by investing in new development sites at reasonably low cost as and when such sites become available. The Group plans to increase its land bank substantially over the next several years, while also achieving a balanced distribution of investment across the regions in which it operates. Further, the Group adopts the “1+N+n” regional management strategy to resolve expansion-related issues.

Maintaining prudent financial management

The Group intends to continue to improve its fund management capabilities through sound financial management, taking advantage of its investment grade rating and its international and domestic funding platforms and channels. The Group will target a low gearing ratio relative to its peers, prudent levels of indebtedness and a strong liquidity position. The Group intends to make full use of its fund-raising capabilities to enhance its financial strength through the capital and credit markets by tapping new channels and platforms as appropriate, subject to market conditions, including from time to time issuances of US dollar debt securities and hybrid securities. The Group will also continue to improve its internal financial management processes and corporate governance standards. It strictly adheres to the principle of prudent financial management and in particular focuses on ensuring spending is in line with cash inflows. Moreover, the Group’s management believes that it generally maintains a conservative level of debt, with sufficient cash flows for debt service. Prudent financial management and a strong finance function allow the Group to avoid the need to sell properties at low prices in a market downturn and position the Group to seize business opportunities and to acquire prime land at reasonable cost. In summary, the Group seeks to strengthen its financial and cash flow management to support sustainable business growth.

While the Group is in the process of relining standardised management procedures, in the meantime, it is also strengthening the system development and accelerating project progress with enhanced management capabilities.

Maintaining an appropriate level of recurring income generated by its investment property portfolio to enhance long term cash flow stability and to diversify risk associated with the real estate development business

The Group and its joint venture’s existing investment property portfolio mainly comprises five commercial properties, namely the China Overseas International Center in Beijing, which is wholly-owned by the Group, with a total rentable area of 40,923 sq.m. the China Overseas Plaza in Lanzhou, which is wholly-owned by the Group, with a total rentable area of 55,096 sq.m., the Huizhou Tongquan Hotel in Huizhou, which is wholly-owned by the Group, with a total gross floor area of 31,713 sq.m., the Shantou Nanbin Hotel in Shantou, which is wholly-owned by the Group, with a total gross floor area of 24,850 sq.m. and the China Overseas Jinhe Information Technology Park in Shanghai’s Zhangjiang Hi-Tech Park, which is 65 per cent. owned by the Group, with a total rentable area of 16,381 sq.m. The Group’s strategy is to maintain an appropriate commercial property portfolio such as offices hotels and malls to generate recurring rental income so as to stabilise the Group’s long term cash flow and to counteract risk and timing in the real estate development cycle.

BUSINESS

The Group's primary business activities and interests are: (1) property investment and development; (2) property leasing; and (3) other segment which mainly includes hotel operations. The following table shows a breakdown of the Group's operations in terms of segment revenue for the years indicated:

	For the year ended 31 December				
	2017		2018	2018	2019
	HK\$ million	(unaudited) ⁽³⁾ RMB million	HK\$ million	(re-presented) RMB million	RMB million
Segment revenue					
Property investment and development ⁽¹⁾	20,004.6	17,273.6	25,274.1	21,274.5	28,317.2
Property leasing	206.6	178.4	223.3	188.0	192.6
Other segment ⁽²⁾	66.6	57.5	73.9	62.2	81.1
Total segment revenue	20,277.8	17,509.5	25,571.3	21,524.7	28,590.9

Notes:

- (1) The Group recognises revenue in the ordinary course of business when revenue recognition criteria are satisfied. See “– Property Development – Overview of Projects”.
- (2) For the years ended 31 December 2017, 2018 and 2019, other segment mainly included hotel operations which generated service fee income in relation to hotel operations and other ancillary services.
- (3) Translated at the exchange rate of HK\$1.1581 to RMB1.00, being the average closing middle rate for the year ended 31 December 2017 published on the BOC Exchange Rate website by Bank of China, for reference only.

The following table shows a breakdown of the Group's operations in terms of segment profit or loss for the years indicated:

	For the year ended 31 December				
	2017		2018	2018	2019
	HK\$ million	(unaudited) ⁽³⁾ RMB million	HK\$ million	(re-presented) RMB million	RMB million
Segment profit/(loss)					
Property investment and development ⁽¹⁾	2,951.0	2,548.1	6,268.3	5,276.3	8,262.2
Property leasing	365.7	315.8	167.3	140.9	148.2
Other segment ⁽²⁾	(28.5)	(24.6)	(16.7)	(14.1)	(24.3)
Total segment profit	3,288.2	2,839.3	6,418.9	5,403.1	8,386.1

Notes:

- (1) The Group recognises revenue in the ordinary course of business when revenue recognition criteria are satisfied. See “– Property Development – Overview of Projects”.
- (2) For the years ended 31 December 2017, 2018 and 2019, other segment mainly included hotel operations which generated service fee income in relation to hotel operations and other ancillary services.
- (3) Translated at the exchange rate of HK\$1.1581 to RMB1.00, being the average closing middle rate for the year ended 31 December 2017 published on the BOC Exchange Rate website by Bank of China, for reference only.

PROPERTY SALES

Property sales include both pre-sales and sales of properties from stock in a particular period. For the year ended 31 December 2019, contracted property sales of the Group and its associates and joint ventures amounted to RMB53,732.8 million for an aggregated contracted area of 5,044,400 sq.m.,

representing an increase of 30.8 per cent. and 26.2 per cent., respectively, compared to 2018. The balance of preliminary sales pending the completion of sales and purchase agreements as at 31 December 2019 was RMB1,409.3 million for an aggregated contracted area of 116,200 sq.m.

Contracted property sales from major projects during the year ended 31 December 2019:

City	Name of project	Contracted Area (sq.m.)	Amount (RMB million)
Yangzhou	Grand Polis	159,616	1,780.8
	Eternal Treasure	110,732	1,636.0
	Gorgeous Mansion	43,953	810.9
	Glory Manor	52,789	587.2
Yinchuan	International Community	411,584	2,772.9
	Mansion Yue	143,598	1,226.4
Nantong	Upper East	161,192	2,712.2
	Times Metropolis	34,348	696.9
	Central Mansion	22,714	443.4
Hefei	Lakeville	117,174	1,909.2
	Royal Villa	39,985	896.9
	Coli City	73,980	890.2
Ganzhou	The Cullinan	92,851	1,363.0
	The Riverside	87,823	895.3
	The Riverside	66,890	750.9
	One Riverside Park	43,332	579.5
Jilin	International Community	149,218	1,340.7
	Overlooking River Mansion	146,832	1,119.4
	The New Metropolis	95,860	614.2
Huizhou	Riverview Mansion	142,021	1,699.2
	Harbour City	82,227	828.6
	The Rosary	47,701	514.1
Nanning	International Community	255,253	2,397.3
	Harrow Community	48,812	539.3
Changzhou	Platinum Mansion	79,360	1,336.2
	Hai Hua Garden	163,407	1,197.2
Weifang	Da Guan Tian Xia	290,290	2,502.6
Hohhot	The Premier Mansion	178,318	2,389.9
Yancheng	Glory Mansion	112,111	1,218.0
	The Paragon	35,883	889.0
Xining	Glorioushire	215,166	2,046.0
Baotou	Glorioushire	256,635	1,984.9
Xuzhou	Treasure Mansion	108,975	1,202.7

For the year ended 31 December 2019, nearly 3,256,200 sq.m. of construction sites were completed (for the year ended 31 December 2018 nearly 2,750,300 sq.m.) with approximately 97 per cent. of these sold. For the year ended 31 December 2019, recognised revenue from property development increased to RMB28,317.2 million (for the year ended 31 December 2018 RMB21,274.5 million), an increase of 33.1 per cent.

Recognised revenue from major projects during the year ended 31 December 2019:

<u>City</u>	<u>Name of project</u>	<u>Saleable GFA</u> (sq.m.)	<u>Amounts</u> (RMB million)
Huizhou	Harbour City	181,291	2,185.8
	Triumph Town	125,824	1,468.0
Nantong	Huizhou Tangquan	5,481	160.4
	Central Mansion	66,906	1,550.0
	The Aqua	88,791	842.5
Yangzhou	Upper East	31,045	612.6
	Grand Polis	93,046	1,000.7
	Glory Manor	62,486	799.1
	Eternal Treasure	43,474	598.6
Nanning	Yangzhou Jiaping	35,341	431.1
	International Community	238,359	2,477.5
Shantou	La Cite	206,411	1,778.2
	Huating	70,255	472.6
Jilin	International Community	289,655	2,231.7
Ganzhou	International Community	180,835	1,803.5
Yancheng	The Glorious	143,266	1,644.4
Lanzhou	Dynasty Court	76,809	799.5
	China Overseas Plaza	74,286	761.6
Weifang	Da Guan Tian Xia	88,873	827.1
Changzhou	The Phoenix	76,860	796.4
Yinchuan	International Community	108,318	719.7
Hefei	Coli City	52,239	639.7

In addition to the above, constructions commenced on the following projects during the year ended 31 December 2019:

<u>City</u>	<u>Name of project</u>	<u>Construction commenced</u>
Lanzhou	Platinum Pleas Mansion	January 2019
Yangzhou	Upper East	April 2019
Guilin	Patrimonial Mansion	June 2019
Quanzhou	Glorious	June 2019
Baotou	PT Hyatt (Previously named as “Xindoushi District Project #2”)	September 2019
Nanning	Celestial Heights	September 2019
Changzhou	Clouds Fairyland	October 2019
Jilin	Glorioushire	October 2019
Lanzhou	China Overseas Platinum Garden	November 2019
Nantong	Jade Park	November 2019
Qingyuan	One Lake Vision	November 2019
Shaoxing	The Central Mansion	November 2019
Hefei	Central Mansion	December 2019
Hohhot	He Shan Da Guan	December 2019
Quanzhou	River View Mansion	December 2019
Xuzhou	The Platinum Pleas Mansion	December 2019

As at 31 December 2019, properties under construction and stock of completed properties amounted to 14,341,300 sq.m. and 838,400 sq.m., respectively, totalling 15,179,800 sq.m. Properties of 8,316,300 sq.m. had been contracted for sales and were pending for handover upon completion.

PROPERTY DEVELOPMENT

Overview of Projects

Most of the Group’s property developments comprise high quality residential properties targeting the middle- to high-end retail market in the PRC. The Group uses the brand name “China Overseas Property” (“中海地產”) in the PRC. The Group offers a broad variety of products, including townhouses, low-rise apartments, high-rise apartments, villas, deluxe houses, international community developments and high-end houses.

The Group acquires land in the PRC to support its property development growth and to afford it greater balance in the distribution of its investment across the PRC. The Group's plan is to expand in the third-tier cities that it has already entered and to rank among the top three developers in those cities and to look for new investment opportunities in other third-tier cities. The Group favours third-tier cities which are already a regional economic centre or which have the potential to become a regional economic centre due to their close proximity to more developed cities and which are targeting higher GDP and population growth rates and lower unemployment rates, than the national average. The Group believes that it is well placed to benefit from ongoing infrastructure investment in the PRC and the rapid industrialisation and urbanisation of inland cities. As at 31 December 2019, the Group and its joint ventures had a land bank of approximately 24.0 million sq.m. (with an attributable land bank of 21.9 million sq.m.) in 26 cities in the PRC. The Group's management believes that, subject to market conditions, this reserve is enough to meet its requirements for development over the next several years, although it will seek to expand its land bank opportunistically.

With respect to the property information contained in this Offering Circular, the site area information for an entire project is based on the relevant land use rights certificates. The aggregate GFA of an entire project is calculated by multiplying its site area by:

- the plot ratio specified in other approval documents from the local governments relating to the project;
- the maximum permissible plot ratio as specified in the relevant land grant contracts; or
- such lower plot ratio as the Group reasonably expects to be able to develop for such project.

The aggregate GFA of a project includes both saleable and non-saleable GFA. Non-saleable GFA refers to certain communal facilities, including transformer rooms, carparks, club houses and guard houses.

The Group generally treats a property unit as "sold" when an agreement is executed with a customer. A property unit is classified as "pre-sold" when the property unit has been sold but the sale amount related thereto has not yet been recognised as revenue. For the year ended 31 December 2017, the Group recognised the sales of properties in the ordinary course of business as revenue when all of the following criteria are satisfied: (1) the significant risks and rewards of ownership of the properties are transferred to the buyers; (2) neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the properties are retained; (3) the amount of revenue can be measured reliably; (4) it is probable that the economic benefits associated with the transaction will flow to the Group; and (5) the cost incurred or to be incurred in respect of the transaction can be measured reliably. The Group applied HKFRS 15 (*Revenue from Contracts with Customers*) from 1 January 2018. For the years ended 31 December 2018 and 2019, revenue from sales of properties is recognised when control of the property unit is transferred to the customer. Revenue from sales of properties is recognised over time when the Group's performance under a sales contract does not create an asset with an alternative use to the Group and the Group has enforceable right to payment for performance completed to date; otherwise, revenue from sales of properties is recognised at a point in time when the customer obtains control of the completed property.

The Group generally classifies its development properties into land held for future development, properties under development and completed properties held for sale. Land held for future development is that where the Group has obtained land use certificate for some or all of the development, but where project development has not commenced. Properties under development are in general those where a land use certificate has been obtained for some or all of the development and where project development has commenced. Completed properties held for sale are those property developments which are suitable for occupancy and delivery to purchasers, with all necessary occupation permits or completion certificates obtained and the relevant utilities, access and other related infrastructure being in place.

For the purposes of the Group's consolidated financial statements, payments by the Group for land bank acquired where the land use rights certificates have not yet been obtained are generally recorded by the Group in its consolidated financial statements as "prepayments and deposits". Once the relevant land use certificate has been received for some or all of a project development, whether or not the Group has commenced such development, the project is reclassified as "inventories of properties" as a current asset, along with the Group's completed properties held for sale. Inventories of properties include the Group's properties under development that are not expected to be realised within twelve months from the end of the relevant reporting period, and the amount is separately disclosed. However, properties intended to be developed for investment are not classified as "inventories of properties", but are classified as "investment properties" under non-current assets.

Properties Under Development

Set forth below is a table showing summary information about the Group's development projects by location as at 31 December 2019:

Name/Location	Intended Usage	Approximate Total Site Area	Approximate GFA	Attributable Interest	Stage of Completion	Commencement Date	Estimated Completion Date
		<i>(sq.m.)</i>	<i>(sq.m.)</i>				
The Phoenix							
West of Fenghuang Road, North of Zhongwu Avenue, Tianning District, Changzhou, the PRC	Residential/Commercial	2,100	7,800	100%	Superstructure in progress	2013.04	2nd half of 2020
Huizhou Tangquan							
298 Huizhou Road, Huicheng District, Huizhou, Guangdong Province, the PRC	Residential/Commercial	157,100	203,200	100%	Superstructure in progress	2014.05	2nd half of 2022
Yangzhou Jiajing							
No. 67, Shangfangsi Road, Yangzhou, Jiangsu Province, the PRC	Residential/Commercial	26,500	73,500	70%	Superstructure in progress	2014.09	1st half of 2020
Huating							
West of Chengxi Avenue, Chaoyang District, Shantou, Guangdong Province, the PRC	Residential	48,100	117,500	51%	Superstructure in progress	2015.01	2nd half of 2020
China Overseas Plaza							
Anning District, Lanzhou, the PRC	Residential/Commercial	44,800	236,100	100%	Superstructure in progress	2016.03	1st half of 2020
La Cite							
Haojiang District, Shantou, Guangdong Province, the PRC	Residential/Commercial	71,600	427,300	100%	Superstructure in progress	2016.11	1st half of 2020
Da Guan Tian Xia							
No. 5716, Dongfang Road, Gaoxin District, Weifang, Shandong Province, the PRC	Residential/Commercial	160,400	627,600	100%	Superstructure in progress	2017.02	2nd half of 2020
Harbour City							
Xuri Road, Huicheng District, Huizhou, Guangdong Province, the PRC	Residential/Commercial	29,300	111,900	100%	Superstructure in progress	2017.03	1st half of 2020
The Glorious							
North of Xuehai Road, West of Daizhuang Road, Yancheng, Jiangsu, the PRC	Residential/Commercial	19,800	60,700	100%	Superstructure in progress	2017.03	1st half of 2020
Triumph Town							
No. 2, Wenzu Road, San Dong Town, Huicheng District, Huizhou, Guangdong Province, the PRC	Residential/Commercial	9,100	8,000	100%	Superstructure in progress	2017.04	2nd half of 2020
Glory Manor							
North of Pujiang Road, West of Long Chuan Nan Road, Yangzhou, Jiangsu Province, the PRC	Residential/Commercial	43,000	141,200	100%	Superstructure in progress	2017.05	2nd half of 2020
Coastal Palace							
West of Woniushan Road, North of Xuxiao Highway, Quanshan District, Xuzhou, the PRC	Residential	3,700	11,000	100%	Superstructure in progress	2017.06	1st half of 2020
International Community							
No. 1 Tainshiling Road, Xingning District, Nanning, the PRC	Residential/Commercial	135,000	484,300	100%	Superstructure in progress	2017.07	2nd half of 2021
Coli city							
Feidong County, Hefei, the PRC	Residential	126,600	350,200	100%	Superstructure in progress	2017.09	1st half of 2020
International Community							
Yishan East Road, Fengman District, Jilin City, Jilin Province, the PRC	Residential/Commercial	39,900	113,300	85%	Superstructure in progress	2017.09	2nd half of 2020

Name/Location	Intended Usage	Approximate Total Site Area (sq.m.)	Approximate GFA (sq.m.)	Attributable Interest	Stage of Completion	Commencement Date	Estimated Completion Date
International Community							
South of Jinfeng Eighth Street, East of Zhengyuan South Street, Jinfeng District, Yinchuan City Ningxia Hui Autonomous Region, the PRC	Residential/Commercial	178,400	544,600	85%	Superstructure in progress	2017.09	2nd half of 2022
COGO City							
South of Shiwu Street Jinfeng District, Yinchuan, Ningxia Hui Autonomous Region, the PRC	Residential/Commercial	34,900	91,100	85%	Superstructure in progress	2017.09	1st half of 2020
Central Mansion							
West of Xiaoxi Road, Chongchuan District, Nantong, the PRC	Residential	38,800	79,600	100%	Superstructure in progress	2017.10	1st half of 2020
One Riverside Park							
Zhanggong District, Ganzhou, the PRC	Residential/Commercial	64,600	197,900	100%	Superstructure in progress	2017.10	2nd half of 2020
City Plaza							
No.7 Jiangbei Zone, Huizhou, Guangdong Province, the PRC	Commercial	36,800	228,300	100%	Superstructure in progress	2018.01	2nd half of 2022
The Paragon							
East of Daizhuang Road, Chengnan New District, Yancheng, Jiangsu, the PRC	Residential/Commercial	51,800	144,100	100%	Superstructure in progress	2018.01	2nd half of 2020
Grand Polis							
West of Jiliang Road, North of Zhuxi Road, Yangzhou, Jiangsu Province, the PRC	Residential/Commercial	60,600	153,500	100%	Superstructure in progress	2018.01	1st half of 2020
Eternal Treasure							
South of Fumin Road, East of Dujiang South Road, Yangzhou, Jiangsu Province, the PRC	Residential	67,900	171,800	100%	Superstructure in progress	2018.02	1st half of 2020
The Cullinan							
Zhanggong District, Ganzhou, the PRC	Residential/Commercial	75,800	187,200	100%	Superstructure in progress	2018.02	2nd half of 2020
Times Metropolis							
South of Guanchao Road, East of Taiping Road, Nantong, the PRC	Residential/Commercial	47,100	142,800	30%	Superstructure in progress	2018.03	2nd half of 2020
Platinum Mansion							
North of Guanghua Road, East of Lingxi Road, Tianning District, Changzhou, the PRC	Residential/Commercial	62,500	183,200	100%	Superstructure in progress	2018.04	1st half of 2020
Glorioushire							
Junction of Menyuan Road and Haihu Avenue, Chengbei District, Xining, Qinghai Province, the PRC	Residential	182,200	639,000	100%	Superstructure in progress	2018.04	2nd half of 2021
The Riverside							
Jingkai District, Ganzhou, the PRC	Residential/Commercial	47,900	132,900	100%	Superstructure in progress	2018.06	2nd half of 2020
Glorioushire (previously named as "Xindoushi District Project #1")							
West of Jingju Road, North of Qingsha Road, Baotou, Inner Mongolia Autonomous Region, PRC	Residential/Commercial	166,100	453,300	60%	Superstructure in progress	2018.07	1st half of 2021
Royal Mansino							
East of East Xinqu Road, North of Letian Road, Gaoxin District, Weinan City, Shaanxi Province, the PRC	Residential/Commercial	74,200	226,700	100%	Superstructure in progress	2018.07	2nd half of 2020
Royal Villa (previously named as "Shushan District Project")							
Shushan District, Hefei, the PRC	Residential	116,900	206,900	100%	Superstructure in progress	2018.09	1st half of 2021
Patrimonial Mansion							
East of Sanhuan West Road, Gulou District, Xuzhou, the PRC	Residential	81,200	177,500	34%	Superstructure in progress	2018.09	2nd half of 2020
Treasure Mansion							
East of Sanhuan West Road, Gulou District, Xuzhou, the PRC	Residential	100,000	218,200	34%	Superstructure in progress	2018.09	2nd half of 2021
Platinum Mansion							
North of Shiwu Road, East of Shi Road, Jinfeng District, Yinchuan City, Ningxia Hui Autonomous Region, the PRC	Residential/Commercial	126,400	302,100	85%	Superstructure in progress	2018.10	1st half of 2021
Glory Mansion							
East of Kangju Road, Chengnan New District, Yancheng, Jiangsu, the PRC	Residential	102,900	289,800	100%	Superstructure in progress	2018.10	1st half of 2021

Name/Location	Intended Usage	Approximate Total Site Area (sq.m.)	Approximate GFA (sq.m.)	Attributable Interest	Stage of Completion	Commencement Date	Estimated Completion Date
Rose Garden (previously named as “Huicheng District #1”)							
Huicheng District, Huizhou, Guangdong Province, the PRC	Residential/Commercial	29,600	116,300	100%	Superstructure in progress	2018.12	2nd half of 2020
ColiCity (previously named as “Rencheng District Project”)							
West of Dianhua Road, Jining, Shandong Province, the PRC	Residential/Commercial	194,400	426,600	100%	Superstructure in progress	2018.12	1st half of 2022
Cullinan (previously named as “Yufeng District Project”)							
No. 38, Jianlan Road, Yufeng District, Liuzhou, Guangxi Province, the PRC	Residential/Commercial	94,700	269,400	70%	Superstructure in progress	2018.12	2nd half of 2022
China Overseas Platinum Pleasé Mansion (previously named as “Qilihe District Project”)							
Qilihe District, Lanzhou, the PRC	Residential/Commercial	72,700	324,800	100%	Superstructure in progress	2019.01	2nd half of 2021
Riverview Mansion (previously named as “Huicheng District #2”)							
Wentou Ning, Huicheng District, Huizhou, Guangdong Province, the PRC	Residential/Commercial	52,900	243,000	100%	Superstructure in progress	2019.01	2nd half of 2020
Overlooking River Mansion (previously named as “Changyi District Project”)							
Leju Road, Changyi District, Jilin city, Jilin Province, the PRC	Residential/Commercial	121,000	347,300	100%	Superstructure in progress	2019.04	2nd half of 2021
The New Metropolis (previously named as “Chuanying District Project”)							
North of Wusong West Road, Chuanying District, Jilin City, Jilin Province, the PRC	Residential/Commercial	63,900	156,500	100%	Superstructure in progress	2019.04	2nd half of 2020
Jardin De Rive Gauche (previously named “Jingkai District Project”)							
Jingkai District, Ganzhou, the PRC	Residential/Commercial	71,000	217,300	100%	Superstructure in progress	2019.04	2nd half of 2021
Upper East (previously named as “Hanjiang District Project #1”)							
North of Beicheng Road, West of Wudong Road, Yangzhou, Jiangsu Province, the PRC	Residential	101,600	229,200	100%	Superstructure in progress	2019.04	2nd half of 2021
Upper East (previously named as “Kaifa District Project”)							
North of Yuanxing Road, East of Xinkai North Road, Nantong, the PRC	Residential	56,900	186,300	100%	Superstructure in progress	2019.04	1st half of 2021
Gorgeous Mansion (previously named as “Hanjiang District Project #2”)							
North of Kaifa Road, West of Hongda Road, Yangzhou, Jiangsu Province, the PRC	Residential	72,800	193,400	100%	Superstructure in progress	2019.04	2nd half of 2021
Mansion Yue (previously named as “Jinfeng District Project”)							
East of Mancheng Street, North of Helan Mountain Road, Jinfeng District, Yinchuan City, Ningxia Hui Autonomous Region, the PRC	Residential	198,600	339,000	100%	Superstructure in progress	2019.05	1st half of 2021
Lakeville (previously named as “Baiyan Technology Park District Project”)							
Feixi County, Hefei, the PRC	Residential	83,000	208,100	100%	Superstructure in progress	2019.05	2nd half of 2020
Tai Ping Guan Zhi							
Taiping Lake Town, Huangshan District, Anhui Province, the PRC	Residential/Commercial	415,300	249,500	55%	Superstructure in progress	2019.05	1st half 2022
Glorious							
Qiantou Village, Chidian Town, Quanzhou City, Fujian Province, the PRC	Residential/Commercial	90,400	290,200	100%	Superstructure in progress	2019.06	1st half of 2021
Patrimonial Mansion							
Jinhua Road, Guilin, Guangxi, the PRC	Residential/Commercial	30,700	70,100	100%	Superstructure in progress	2019.06	1st half of 2021
The Premier Mansion (previously named as “Dragon Cove”)							
South of Erhuan Road, Saihan District, Hohhot, Inner Mongolia Autonomous Region, the PRC	Residential/Commercial	80,400	260,600	100%	Superstructure in progress	2019.08	1st half 2022

Name/Location	Intended Usage	Approximate Total Site Area (sq.m.)	Approximate GFA (sq.m.)	Attributable Interest	Stage of Completion	Commencement Date	Estimated Completion Date
Hai Hua Garden							
West of West Heng Tang River Road, South of West Dong Fang Road, Changzhou City, the PRC	Residential/Commercial	99,900	297,300	100%	Superstructure in progress	2019.08	2nd half of 2021
Glorious							
Qiantou Village, Chidian Town, Quanzhou City, Fujian Province, the PRC	Residential/Commercial	19,800	59,000	100%	Superstructure in progress	2019.08	1st half of 2021
Golden Coast							
Hepu Longhutan, Haojiang District, Shantou, Guangdong Province, the PRC	Residential	99,700	224,600	100%	Superstructure in progress	2019.08	2nd half of 2021
PT Hyatt (previously named as “Xindoushi District Project #2”)							
South of Shahe West Street, Baotou, Inner Mongolia Autonomous Region, PRC	Residential/Commercial	53,700	125,100	100%	Superstructure in progress	2019.09	2nd half of 2021
Celestial Heights (previously named as “Qingxiu District Project”)							
North of Shangzhou Road, East of Xianhu Avenue, Qingxiu District, Nanning, the PRC	Residential	212,500	283,200	60%	Superstructure in progress	2019.09	2nd half of 2021
Da Guan Tian Xia							
No. 5716, Dongfang Road, Gaoxin District, Weifang, Shandong Province, the PRC	Residential/Commercial	146,000	608,900	100%	Superstructure in progress	2019.09	2nd half of 2021
Hohhot Gloriosoire							
West of Tianjiao Road, South of Fengzhou Bei Road, Hohhot, Inner Mongolia Autonomous Region, the PRC	Residential/Commercial	69,500	162,000	100%	Superstructure in progress	2019.10	1st half of 2023
Gloriosoire							
North of Wenhui Road, Fengman District, Jilin City, Jilin Province, the PRC	Residential/Commercial	167,500	518,500	100%	Superstructure in progress	2019.10	1st half of 2023
Harrow Community							
East of Lunggang Da Dao, South of Sanhe Road, Yining District, Nanning, the PRC	Residential/Commercial	166,700	472,200	41%	Superstructure in progress	2019.10	2nd half of 2022
Clouds Fairyland							
East of West Heng Tang River Road, South of West Dong Fang Road, Changzhou City, the PRC	Residential/Commercial	95,500	276,500	100%	Superstructure in progress	2019.10	1st half of 2023
Coli city East county							
West of Shier Street, North of Shiwu Street, JinFeng District, Yinchuan City, Ningxia Hui Autonomous Region, the PRC	Residential/Commercial	69,000	185,000	85%	Superstructure in progress	2019.11	2nd half of 2021
Gloriosoire							
West of Shiyi Street, South of Shiwu Street, Jinfeng District, Yinchuan City, Ningxia Hui Autonomous Region, the PRC	Residential/Commercial	193,200	371,000	85%	Superstructure in progress	2019.11	2nd half of 2021
China Overseas Platinum Garden							
Qilihe District, Lanzhou, the PRC	Residential/Commercial	107,300	480,200	60%	Superstructure in progress	2019.11	1st half of 2023
Jade Park							
East of Xiluan Road, North of Guanchang Road, Nantong, the PRC	Residential	142,500	414,900	60%	Superstructure in progress	2019.11	2nd half of 2021
Central Mansion							
Yuecheng District, Shaoxing City	Residential	40,400	101,700	100%	Superstructure in progress	2019.11	2nd half of 2021
One Lake Vision							
Feilai Road, Qingxin District, Qingyuan City, Guangdong Province, the PRC	Residential/Commercial	54,600	180,700	100%	Superstructure in progress	2019.11	2nd half of 2021
Central Mansion							
Binhu District, Hefei City	Residential/Commercial	104,500	290,200	60%	Superstructure in progress	2019.12	1st half of 2022
The Platinum Pleasid Mansion							
South of NanShan Ting Yuan, Xuzhou City, the PRC	Residential	46,000	136,500	100%	Superstructure in progress	2019.12	2nd half of 2021
River View Mansion							
Qiantou Village, Chidian Town, Quanzhou City, Fujian Province, the PRC	Residential/Commercial	53,200	159,100	100%	Superstructure in progress	2019.12	2nd half of 2021

Land Bank

The Group's management believes that a sizable and quality land bank is one of the most important assets to a property developer. During the year ended 31 December 2019, the Group entered into three new cities, namely Quanzhou City (Fujian province), Qingyuan City (Guangdong province) and Weinan City (Shaanxi province). Other than the projects in Weinan, the Group successfully acquired a total of 31 parcels of land, with total development area of approximately 6.1 million sq.m. (attributable to the Group: 5.4 million sq.m.) during the year ended 31 December 2019. These land parcels are located in Guilin, Shaoxing, Changzhou, Xuzhou, Lanzhou, Jilin, Hohhot, Nanning, Hefei, Nantong, Weifang, Jining, Yangzhou, Shantou, Jiujiang, Quanzhou, Qingyuan and Yancheng.

As at 31 December 2019, the total land bank of the Group and its joint ventures in China reached approximately 24.0 million sq.m., of which, 0.07 million sq.m. was held by its associates. The land bank attributable to the Group (including the interests in its joint ventures) was approximately 21.9 million sq.m. The Group's land bank was distributed in 26 cities in the PRC as at 31 December 2019.

With its prudent expansion strategy, the Group would keep on closely monitoring the market situation and search for suitable land pieces for development in order to maintain a quality land bank at reasonable price.

The following table shows the land parcels acquired by the Group through public land auctions during 2019:

No.	City	Name of Project	Attributable	Land Area	Total GFA	Attributable	Attributable
			Interest			GFA	Land premium
			(per cent.)	('000 sq.m.)	('000 sq.m.)	('000 sq.m.)	(RMB million)
1	Guilin	Diecai District Project	100	31	70	70	246
2	Changzhou	Tianning Economic Development Zone Project #1	100	100	297	297	530
3	Quanzhou	Jinjiang Chidiannan Project #1	100	90	290	290	1,383
4	Xuzhou	Quanshan District Project #1	100	46	136	136	583
5	Shaoxing	Yuecheng District Project	100	40	102	102	1,062
6	Changzhou	Tianning Economic Development Zone Project #2	100	95	276	276	2,330
7	Lanzhou	Qilihe District Project (Note 1)	60	107	480	288	1,652
8	Quanzhou	Jinjiang Chidiannan Project #2	100	20	59	59	266
9	Jilin	Fengman District Project	100	195	633	633	1,012
10	Hohhot	Xincheng District Project #1	100	45	108	108	470
11	Hohhot	Xincheng District Project #2	100	26	67	67	269
12	Hohhot	Xincheng District Project #3	100	70	162	162	448
13	Hefei	Binhu District Project (Note 1)	60	150	409	246	1,843
14	Nanning	Wuxiang New District Project	40.8	167	472	193	497
15	Qingyuan	Feilai Lake Project	100	55	181	181	617
16	Nantong	Chongchuan District Project #1 (Note 1)	60	50	140	84	730
17	Nantong	Chongchuan District Project #2 (Note 1)	60	54	156	94	898
18	Nantong	Chongchuan District Project #3 (Note 1)	60	38	119	71	684
19	Weifang	Fangzi District Project	100	31	63	63	136
20	Quanzhou	Jinjiang Chidiannan Project #3	100	53	159	159	630
21	Jining	Rencheng District Project	100	39	111	111	259
22	Yangzhou	Guangling District Project #1	100	114	260	260	896
23	Yangzhou	Guangling District Project #2	100	48	121	121	469
24	Shantou	Haojiang District Project	100	80	354	354	1,228
25	Jilin	Gaoxin District Project	100	41	118	118	356
26	Xuzhou	Quanshan District Project #2	100	39	135	135	423
27	Xuzhou	Quanshan District Project #3	100	17	57	57	170
28	Hohhot	Xincheng District Project #4	100	45	129	129	393
29	Lanzhou	Chengguan District Project	100	72	250	250	1,102
30	Jiujiang	Xunyang District Project	100	58	110	110	352
31	Yancheng	Yannan Gaoxin District Project	100	50	167	167	1,334
				2,067	6,192	5,390	23,268

Notes:

1. Project stake has been adjusted and the land will be developed in form of cooperation project.
2. The above table does not include the property portfolio acquired by the Company from China Overseas Holdings Limited mentioned in the announcement dated 29 May 2019 of the Company and published on the websites of Hong Kong Exchanges and Clearing Limited and the Company.

Property Development Process

Development of the Group's properties usually entails six phases: land acquisition, project planning and preliminary work, design, project construction, pre-sales and sales, and after-sales services.

The typical development cycle for vacant land in the PRC is approximately three years, whereas the development cycle for urban property projects can be longer, particularly for project sites that are not vacant at the time of acquisition.

The Group is involved in the different stages of the development process in order to control the costs, schedule and quality of its projects. Except for the design and construction of development projects, the Group oversees and largely performs all aspects of its development operations, including the selection and purchase of sites, the preparation of feasibility studies, the obtaining of government approvals for development, supervision of the design and construction of development projects and the marketing and management of completed projects.

Site selection and product positioning

The Group undergoes a site selection process and conducts an in-depth market analysis to understand the trends of the property market and market prices before it commences or launches a property development. The major site selection criteria applied by the Group include the following:

- development plans (of the government) for the relevant site;
- accessibility of the site and available infrastructural support;
- consumer demand for properties in that area;
- competition from other developments in the locality;
- its convenience and the amenities close to the site (such as natural parks, greenery, schools, rivers and commercial facilities); and
- cost, investment and financial return ratios.

Land acquisition

The "Rules Regarding the Grant of State-Owned Construction Land Use Rights by Way of Competitive Bidding, Public Auction and Public Trading" (《招標拍賣掛牌出讓國有建設用地使用權規定》) promulgated by the Ministry of Land and Resources (which has been incorporated in the newly-established Ministry of Natural Resources of the PRC) in April 2002, as amended in September 2007, provide that, with limited exemptions, state-owned land use rights for the purposes of industrial and commercial use, tourism and entertainment and commodity residential properties in the PRC can only be granted by the government through public competitive bidding, public auction or public trading on land exchanges. The property developer shall pay the land premium in full for the entire land parcel under the land grant contract before they are granted the land use right certificate and commence the development of the land.

Financing of property developments

The Group has three main sources of funding for its property developments: internal resources, bank loans and debt financing, and proceeds from pre-sales. The Group's financing method varies from property to property. Generally, the Group finances its property developments with internal resources to the extent practicable and pre-sells the development where the regulatory requirements for pre-sale have been met, and where market conditions allow, to reduce the level of external funding required.

Design

Construction design entails all aspects of the projection and design of a property development including planning, architecture, landscaping and interior design.

Marketing and promotion

During project evaluation and before commencement of construction, the Marketing and Sales Department of the Group usually carries out substantial market research for particular projects, including the identification of property trends, prospects and market potential. By identifying the potential demand for, and strengths and weaknesses of, a project at an early stage, the Group is able to formulate its marketing and promotion strategies at the planning stage of each project and to target its sales efforts at potential classes of purchasers for the project throughout its development.

The Marketing and Sales Department is also responsible for marketing new properties developed by the Group. The Group promotes and markets its developed properties through various media outlets, including television, radio, newspapers and magazines, the Internet and billboards. The Group also participates in property exhibitions and other marketing activities and implement the "Star of China Overseas Property" plan.

Development, construction and management

Apart from various centralised departments that oversee and control the major steps of all the developments undertaken by the Group, the Group has established individual project companies that are responsible for day-to-day operations and project management of each individual project. The centralised departments, which include the Marketing and Sales Department, the Design Management Department, the Contract Management Department and the Construction Management Department, assume control of all the major stages of the development, including project identification, project planning and design, and budget control through organised tenders. Each individual project company is responsible for implementing infrastructure and installation of basic utilities, engineering and supervision of day-to-day construction work.

The Group engages third party contractors (including CSCECL) to provide various services, including construction, supervision, piling and foundation, building and property fitting-out work, interior decoration and installation of air-conditioning units and elevators. The Group's development projects are usually undertaken by contractors selected by way of open tender and it is the Group's policy to solicit bids from at least three contractors or suppliers. The tender procedures must comply with the relevant local regulations.

On 26 June 2018, the Guarantor and China State Construction Development Holdings Limited ("CSCD", formerly known as Far East Global Group Limited) entered into a framework agreement (the "COGO Framework Agreement") pursuant to which the Group may appoint CSCD and its subsidiaries to provide project management, supervision and consultancy services for the property development projects of the Group in the PRC. The COGO Framework Agreement covers a period commenced from 1 July 2018 and ending on 30 June 2021. For the year ended 31 December 2019, contracts with contract sum amounting to RMB11.9 million were awarded by the Group but no management service fee was incurred by the Group under the COGO Framework Agreement.

On 19 November 2020, the Company and CSC entered into a new master engagement agreement whereby (i) the CSC group may tender for the Group's construction works in the PRC as construction contractor in accordance with the tendering procedures of the Group from time to time for a term of three years commencing from 1 January 2021 and ending on 31 December 2023; and (ii) the Group may engage the CSC group as construction contractor for the Group's construction works in the PRC upon the CSC group's successful tender. For details, please refer to the announcement of the Company dated 19 November 2020.

The Group controls development costs at the early stage of the project development process. Its in-house design team focuses on the selection of materials and construction methods to minimise costs.

The five largest suppliers of the Group accounted for less than 30 per cent. of the Group's total purchases for the year ended 31 December 2019.

Quality management system

The Group and its products and services are required to comply with relevant regulations and industry standards. Quality control procedures are in place in different functional departments of the Group as well as in each project company.

Internal guidelines have been established and are monitored to ensure control over documentation, recordkeeping, internal audit, service standards, remedial actions, preventive actions, management control, construction standards, staff quality, recruitment standards, staff training, construction supervision, supervisory inspection, monitoring and surveillance, information exchange and data analysis. The Group also adopts a KPI system for project managers in order to achieve product perfection.

Pre-sales

The Group must apply to the relevant government authorities for pre-sale permits before commencing pre-sales of its properties. Such permits will normally be issued only when, amongst other things, (i) the land premium has been fully paid; (ii) the land use rights certificate, the construction land planning permit and the construction work planning permit have been obtained; and (iii) the funds disbursed by construction of the properties for pre-sales have reached 25 per cent. of the total estimated investment amount, and the construction schedule and date of completion and delivery of the project have been determined.

Under PRC laws and regulations, the proceeds from the pre-sales of the Group's properties must be deposited in escrow accounts. Before the completion of the pre-sold properties, the moneys deposited in these escrow accounts may only be used to purchase construction material and equipment, make interim construction payments and pay taxes, subject to prior approval from the relevant local authorities. As at 30 June 2020, the Group was in compliance, in all material respects, with the relevant laws and regulations applicable to the pre-sale of properties in the PRC.

Payment method and mortgage financing

Purchasers may pay for the Group's properties by way of a lump sum payment or payment in instalments or payments with mortgage facilities. The Group typically requires its purchasers to pay a non-refundable deposit upon entering into provisional purchase contracts. If the purchasers later decide not to enter into formal purchase contracts, they will forfeit such deposits. If the purchasers choose to fund their purchases by mortgage loans provided by banks, it is their own responsibility to apply for and obtain the mortgage approvals. Upon request, the Group may also assist mortgage applicants by providing the relevant property information to expedite the application process.

Most of the Group's customers purchase their properties through mortgage financing. The Group makes arrangements with various domestic banks to provide mortgage facilities to purchasers of its properties. The Group provides guarantees to mortgagee banks in respect of mortgages offered to its customers, but only from the date of the relevant mortgage up to typically either submission of the relevant property ownership certificates by the relevant customer to the mortgagee bank or completion of the registration of the mortgage with the relevant local authority. When submission of relevant ownership certificates is required, the guarantee period for such preregistration guarantee normally lasts for up to 18 months. In other situations, the guarantee period for a preregistration guarantee is shorter. If, during the guarantee period, a borrower defaults on its repayment obligations, the Group is liable to the mortgagee bank for the amount owing to them from the borrower, but it will have the right to take possession and re-sell the mortgaged property. Accordingly, the period in which the Group actually bears the credit risk of its customers starts from the date of the relevant mortgage and ends on the date when the registration of the mortgage with the relevant local authority is completed. In line with industry practice, the Group does not conduct independent credit checks on its purchasers but relies on the credit checks conducted by the mortgagee banks. As at 31 December 2019, the Group's outstanding guarantees over the mortgage loans of its customers amounted to RMB30,453.6 million. The Group has not experienced any default by a significant portion of such customers under pre-registration guarantees.

After-sales services

The Group assists its customers in arranging for and providing information relating to financing, including information on potential mortgagee banks and the mortgage terms they offer. It also assists its customers in various title registration procedures relating to the properties.

As part of the Group's after-sales services, the Group offers its buyers access to its customer club "China Overseas Property Club" which allows its property owners and various merchants and service partners to interact throughout the after-sales period. The Group maintains a client relationship management system to foster customer relationships. The Customer Services Department carries out customer surveys with the purchasers normally one year after delivery of possession to seek customer feedback on the design and quality of the properties. Such data is then used when developing and planning new projects. The Group also has a subdivision devoted to handling customer complaints and maintenance and repair requests.

PROPERTY INVESTMENT

The Group and its joint venture's existing investment property portfolio mainly comprises two commercial properties in first-tier cities in the PRC, namely Beijing and Shanghai. The Group recorded rental income of approximately RMB192.6 million for the year ended 31 December 2019, representing an increase of 2.4 per cent. from 2018.

The China Overseas International Center in Beijing is an office building with a total area of 40,923 sq.m. wholly owned by the Group. It forms part of a mixed use development which includes one other office building, a four star hotel, shops and a Chinese opera theatre. It is located in the Xicheng District, at the intersection of West Second Ring Road and Ping An Avenue near Financial Street, one of the three most important business districts in Beijing. As at 31 December 2019, approximately 92 per cent. of this property was leased out.

The China Overseas Jinhe Information Technology Park in Shanghai's Zhangjiang Hi-Tech Park is 65 per cent. owned by the Group. It comprises a six-storey office building with a total area of 16,381 sq.m. As at 31 December 2019, approximately 95 per cent. of this property was leased out.

On 1 April 2020, certain subsidiaries of the Company, entered into property lease agreements with the relevant lessees which are subsidiaries of COLI, i.e. connected persons of the Company under Chapter 14A of the Listing Rules of the Hong Kong Stock Exchange. For details, please refer to the announcement of the Company dated 1 April 2020.

PROPERTY MANAGEMENT

The Group's properties are managed by China Overseas Property Holdings Limited (the "COPH", stock code 2669.HK) which as at 31 December 2019 was a 61.18 per cent. owned subsidiary of COHL.

On 20 October 2017, the Company and COPH entered into a framework agreement (the "New Projects Framework Agreement") pursuant to which any member of COPH may provide property management services and engineering services to the Group for certain property development projects in several emerging third-tier cities in the PRC acquired by the Group from COLI in December 2016. The New Projects Framework Agreement commenced on 1 January 2018 and ended on 30 June 2020. For the year ended 31 December 2019, the property management services and engineering services fee incurred under the New Projects Framework Agreement was RMB31.1 million.

On 20 October 2017, the Company and COPH also entered into another framework agreement (the "Prevailing Projects Framework Agreement" and, together with the New Projects Framework Agreement, the "Projects Framework Agreements") to increase the annual caps and extend the scope of services under the property management agreement entered into by the Group and COPH on 1 June 2015 (the "Property Management Agreement"), pursuant to which COPH may provide property management services to the Group, and to renew the transaction underlying the Property Management Agreement. Pursuant to the Prevailing Projects Framework Agreement, any member of COPH group may provide property management services and engineering services to the Group for property development projects in the PRC, Hong Kong, Macau and other locations (excluding those projects acquired from COLI in December 2016). The Prevailing Projects Framework Agreement commenced on 1 January 2018 and ended on 30 June 2020. For the year ended 31 December 2019, the property management services and engineering services fee incurred under the Prevailing Projects Framework Agreement was RMB84.1 million.

On 28 April 2020, the Company and COPH entered into a renewal framework agreement (the "Renewal Framework Agreement") to increase the annual caps and extend the scope of services under the Projects Framework Agreements and to renew the transaction underlying the Projects Framework Agreements. Pursuant to the Renewal Framework Agreement, any member of COPH group may provide property management services and value-added services to the Group for property development projects or properties owned or held by the Group in the PRC, Hong Kong, Macau and other locations (including those projects acquired from COLI in December 2016 that were not managed by COPH at the time the New Projects Framework Agreement was entered into). The Renewal Framework Agreement commenced on 1 July 2020 and will end on 30 June 2023.

COMPETITION

The property market in the PRC is highly fragmented and there is no dominant market player. The Group's existing and potential competitors include major domestic state-owned, collectively-owned and private developers and foreign developers from the rest of Asia (including several leading developers from Hong Kong).

Given the property lease agreements entered into on 1 April 2020 as described in this section and in the announcement of the Company dated 1 April 2020, with respect to the Group's investment properties, the outlook is stable in the next 3 years.

In addition, the Group competes with local property developers in each of the regions and cities in which it operates.

DEBT MATURITY

The maturities of the Group's bank and other borrowings, including guaranteed notes payable as at 31 December 2019 are set out below:

	As at 31 December 2019
	RMB millions
Bank and other borrowings	
Within one year	11,656
More than one year	19,133
Total bank and other borrowings	30,789

EMPLOYEES

As at 31 December 2019, the Group had 2,516 employees. As at the date of this Offering Circular, the Group has not experienced any strikes or other disruptions that would have a material adverse effect on its operations due to labour disputes. The Group's management believes that the Group maintains a good relationship with its employees.

The Group has established a wide range of training and development programs for its employees. In addition to providing internal courses, the Group also engages outside professionals and consultants to organise seminars and training courses to equip its employees with up-to-date industry knowledge. The Group also sponsors its employees to attend external training programs organised by local and overseas institutions to acquire advanced knowledge and skills.

ENVIRONMENTAL AND SAFETY MATTERS

The Group is subject to PRC environmental laws and regulations as well as environmental regulations promulgated by government authorities. These include regulations on air pollution, noise emissions and water and waste discharge. Each property developed by the Group must undergo environmental assessments and an environmental impact study report needs to be submitted to the relevant government authorities before approval is granted for commencement of the property development, except for some early property developments which were approved before the applicable environmental laws were promulgated. At completion of each property, the relevant government authorities will also need to inspect the site to ensure that applicable environmental standards have been complied with, and the resulting report is then presented together with other specified documents to the local construction administration authorities for their record.

The Group's operations are also subject to inspections by government authorities with regard to various safety and environmental issues. The Group's management believes that the Group is in compliance in all material respects with applicable governmental regulations in the jurisdictions in which the Group operates. Compliance with such laws has not had, and in management's opinion is not expected to have, a material adverse effect upon the Group's capacity, expenditure, earnings or competitive position. The Group is not aware of any governmental proceedings or investigations to which it or any member of the Group is or might become a party and which may have a material adverse effect on its properties and operations.

The Group aims to develop top-quality properties which emphasise environmental protection, energy conservation and sustainability of the environment. The Group strives to fulfil its obligations as a corporate citizen by constantly innovating and applying "low-carbon construction" techniques during the construction process, design, development and management of projects. It also strives to achieve standardisation and minimise the wastage of resources to help build a green community.

LEGAL PROCEEDINGS

As at the date of this Offering Circular, the Group is not aware of the Guarantor or any of its subsidiaries being involved in any litigation or arbitration proceeding that would have a material adverse effect on the business or financial position of the Group or the Guarantor and no material litigation or claim is known by the Group to be pending or threatened against the Guarantor or any of its subsidiaries or the Group.

INSURANCE

The Group maintains insurance coverage on all of its properties under construction, third party liabilities and employer's liabilities. The insurance policies generally cover the period from the commencement of construction of the properties by the Group up to the completion of the construction. Certain types of losses, however, such as war, civil disorder, acts of terrorism, earthquakes, typhoons, flooding, and other natural disasters, are not covered. This practice is consistent with what the Group's management believes to be the industry practice in the PRC.

In addition, the Group contributes to social security insurance for its employees in the PRC, as required by PRC social security regulations, such as a pension contribution plan, medical insurance plan, unemployment insurance plan and work-related injury insurance plan.

DIRECTORS AND MANAGEMENT

The members of the board of directors and the officers of the Guarantor as at the date of this Offering Circular are as follows:

BOARD OF DIRECTORS

The board of directors of the Guarantor (the “**Board**”) comprises:

<u>Name</u>	<u>Title</u>
Mr. Zhuang Yong	Chairman and Executive Director
Mr. Yang Lin	Chief Executive Officer and Executive Director
Mr. Wang Man Kwan, Paul	Chief Financial Officer and Executive Director
Mr. Yan Jianguo	Non-executive Director
Mr. Yung Kwok Kee, Billy.	Vice Chairman and Non-executive Director
Dr. Chung Shui Ming, Timpson.	Independent Non-executive Director
Mr. Lam Kin Fung, Jeffrey	Independent Non-executive Director
Mr. Lo Yiu Ching, Dantes	Independent Non-executive Director

Executive Directors:

MR. ZHUANG YONG, *Chairman*

Mr. Zhuang, aged 44, graduated from Chongqing University majoring in international corporate management in 2000, and obtained a Master of Architecture and Civil Engineering in 2007 from Chongqing University. Mr. Zhuang joined China Overseas Development Group Co., Ltd. (a wholly-owned subsidiary of COLI) in 2000 and since then, he worked in various business units within China Overseas Development Group Co., Ltd., such as, human resources department, sales and marketing management department, and acted as the deputy general manager of the Shanghai branch, general manager of the Nanjing branch, general manager of the Suzhou branch and assistant general manager of the Western China regional companies. From 2015 to 2017, Mr. Zhuang served as the assistant president of COLI and general manager of Northern China regional companies, vice president of COLI, and since October 2018, as general manager of South China regional companies of COLI. With effect from 11 February 2020, Mr. Zhuang has been appointed as Chairman of the Board, Executive Director and member of Nomination Committee of the Guarantor, as well as non-executive director and vice chairman of the board of directors of COLI. Currently, he is also a director of COHL and certain subsidiaries of the Guarantor. He has about 20 years’ experience in corporate management. COLI and COHL are the substantial shareholders of the Guarantor within the meaning of the Securities and Futures Ordinance (Cap. 571) of Hong Kong (“SFO”).

MR. YANG LIN, *Chief Executive Officer*

Mr. Yang, aged 47, graduated from the Peking University with a Master of Business Administration. He joined a subsidiary of COHL in 1995 and since 2006, he served in different positions, such as, the deputy general manager and general manager of the marketing and planning department of China Overseas Development Group Co., Ltd. and the general manager of China Overseas Xingye (Xi’an) Limited. Mr. Yang has been appointed as Assistant President of the Guarantor since March 2015 and appointed as Executive Director and Vice President of the Guarantor with effect from 21 March 2017. With effect from 11 February 2020, he has also been appointed as Chief Executive Officer and member of Remuneration Committee of the Guarantor. With effect from 26 June 2020, he has ceased to be a member of Remuneration Committee of the Guarantor. Mr. Yang is currently a director of certain subsidiaries of the Guarantor. He has 25 years’ experience in property development business. COHL is the substantial shareholder of the Guarantor within the meaning of the SFO.

MR. WANG MAN KWAN, PAUL, *Chief Financial Officer*

Mr. Wang, aged 64, graduated from the Hong Kong Polytechnic (now known as The Hong Kong Polytechnic University). Mr. Wang is a fellow member of The Hong Kong Institute of Certified Public Accountants and an associate member of The Institute of Chartered Secretaries and Administrators (now known as the Chartered Governance Institute) and The Hong Kong Institute of Chartered Secretaries. Mr. Wang joined COLI as general manager, Finance & Treasury Department in December 2004. Between February 2005 and August 2009, he was appointed as executive director, deputy financial controller and qualified accountant of COLI. Prior to joining COLI, Mr. Wang was director and chief financial officer of Guangdong Investment Limited. Mr. Wang has extensive experience in corporate restructuring and corporate financial services. His previous experience includes working in the Hong Kong Inland Revenue Department, Jardine Matheson (Company Secretary's Department and JMS Finance), Deloitte (Hong Kong and Toronto offices) and as a director and chief operating officer of a South East Asian Group in charge of operations in China, Philippines, Indonesia, Singapore, Dubai and Germany. Mr. Wang was appointed an Executive Director and Chief Financial Officer of the Guarantor in July 2011.

Non-executive Directors:

MR. YAN JIANGUO

Mr. Yan, aged 54, graduated from Chongqing Institute of Architectural and Engineering (now known as Chongqing University) majoring in Industrial and Civil Construction in 1989, and obtained an MBA degree from Guanghua School of Management in Peking University in 2000 and a PhD degree in Marketing from Wuhan University in 2017. Mr. Yan joined CSCEC in 1989 and had been seconded to COLI twice. During the year 1990 to 1992, he had been working for the Shenzhen branch of China Overseas Development Group Co., Ltd. and had held a number of positions, including site engineer and department head. He was assigned to COLI again from 2001 to 2011 and had been assistant general manager of Guangzhou branch, deputy general manager of Shanghai branch, general manager of Suzhou branch, general manager of Shanghai branch, vice managing director of China Overseas Development Group Co., Ltd. and president of Northern China region. Mr. Yan had worked in CSCEC from 2011 to June 2014 and had been director of the general office, general manager of information management department, chief information officer and assistant general manager. Mr. Yan joined Longfor Properties Co. Ltd. (stock code 960.HK) in June 2014 and resigned on 5 December 2016. During the period, he had held a number of positions including executive director and the senior vice president. Mr. Yan was appointed as executive director and chief executive officer from 1 January 2017, became chairman of the board of directors of COLI from 13 June 2017 and continued to serve as chief executive officer of COLI. On the same day, he has also been appointed as Chairman of the Board, Non-executive Director and a member of the Nomination Committee of the Guarantor, and chairman of the board of directors and non-executive director of CPH. He has also been appointed as chairman of the board of directors and non-executive director of CSC (stock code 03311.HK) effective from 22 March 2019. With effect from 11 February 2020, Mr. Yan has resigned as chief executive officer of COLI, chairman of the board of directors and non-executive director of CPH and Chairman of the Board and a member of the Nomination Committee of the Guarantor, and continues to act as Non-executive Director of the Guarantor. Mr. Yan has about 31 years' experience in construction business, real estate investment and management.

In addition to acting as the aforesaid positions, Mr. Yan is also the chairman and president of COHL, and a director of certain subsidiaries of COHL and COLI. COHL and COLI are the substantial shareholders of the Guarantor within the meaning of the SFO.

MR. YUNG KWOK KEE, BILLY, *Vice Chairman*

Mr. Yung, aged 67, received a bachelor's degree in Electrical Engineering from University of Washington and a master's degree in Industrial Engineering from Stanford University. Mr. Yung has over 40 years of experience in managing manufacturing, retailing, transportation, semi-conductor, computer hardware and software business in China, Hong Kong and the United States. He has also over 40 years of experience in real-estate investment and development in the United States, Canada, Holland, Hong Kong, Taiwan, Macau and China. Mr. Yung resigned as the Group Chairman and Chief Executive of the Guarantor with effect from 10 February 2010 and has been re-designated from Chairman of the Board and Executive Director to Vice Chairman of the Board and Non-executive Director of the Guarantor with effect from 27 February 2010. He is now the Vice Chairman of the Board, Non-executive Director and member of the Remuneration Committee of the Guarantor. He is also the chairman of the board and non-executive director of PFC Device Inc. and the chairman of the board and non-executive director of SMC Electric Limited (stock code 02381.HK). Mr. Yung is currently the Permanent Honorary President of Friends of Hong Kong Association Ltd., the Honorary President of Shun Tak Fraternal Association and a member of Senior Police Call Central Advisory Board, and was awarded the Honorary Citizen of the City of Guangzhou and the Honorary Citizen of the City of Foshan.

Independent Non-executive Directors:

DR. CHUNG SHUI MING, TIMPSON, *GBS, JP*

Dr. Chung, aged 69, holds a Bachelor of Science degree from the University of Hong Kong, a master's degree in business administration from the Chinese University of Hong Kong and a Doctor of Social Sciences honoris causa from the City University of Hong Kong. He is a fellow member of The Hong Kong Institute of Certified Public Accountants. Dr. Chung is currently a member of the National Committee of the 13th Chinese People's Political Consultative Conference. Besides, Dr. Chung is an independent non-executive director of China Unicom (Hong Kong) Limited, Glorious Sun Enterprises Limited, Miramar Hotel and Investment Company Limited, China Everbright Limited, China Railway Group Limited, Orient Overseas (International) Limited and Postal Savings Bank of China Co., Ltd. (all listed on the Hong Kong Stock Exchange). From 8 January 2018, Dr. Chung ceased to be an independent director of CSCECL (listed on the Shanghai Stock Exchange and is the substantial shareholder of the Guarantor within the meaning of the SFO). From October 2004 to November 2008, Dr. Chung served as an independent non-executive director of China Netcom Group Corporation (Hong Kong) Limited. Formerly, Dr. Chung was an independent director of China Everbright Bank Company Limited, an independent non-executive director of Henderson Land Development Company Limited, Nine Dragons Paper (Holdings) Limited, China Construction Bank Corporation and Jinmao Hotel and Jinmao (China) Hotel Investments and Management Limited, a director of Hantec Investment Holdings Limited, the chairman of China Business of Jardine Fleming Holdings Limited, the deputy chief executive officer of BOC International Limited, the independent non-executive director of Tai Shing International (Holdings) Limited, and the chairman of the Council of the City University of Hong Kong. He was also the chairman of the Hong Kong Housing Society, a member of the Executive Council of the Hong Kong Special Administrative Region, the vice chairman of the Land Fund Advisory Committee of Hong Kong Special Administrative Region Government, a member of the Managing Board of the Kowloon-Canton Railway Corporation, a member of the Hong Kong Housing Authority, a member of the Disaster Relief Fund Advisory Committee and a vice-chairman, director and deputy general manager of Nanyang Commercial Bank Limited and the chief executive officer of the Hong Kong Special Administrative Region Government Land Fund Trust. In addition, Dr. Chung has been appointed as Pro-Chancellor of the City University of Hong Kong with effect from August 2016. Since May 2010, Dr. Chung has been appointed as an Independent Non-executive Director of the Guarantor, the Chairman of the Audit Committee, and members of both the Remuneration Committee and Nomination Committee of the Guarantor.

MR. LAM KIN FUNG, JEFFREY, GBS, JP

Mr. Lam, aged 69, holds a bachelor's degree from Tufts University in the United States. He has over 30 years of experience in the toy industry and is currently the managing director of Forward Winsome Industries Limited which is engaged in toy manufacturing. He is also a member of the National Committee of the Chinese People's Political Consultative Conference. Mr. Lam also holds a number of other public and community service positions including non-official member of the Executive Council, member of the Legislative Council in Hong Kong, general committee member of Hong Kong General Chamber of Commerce, chairman of Independent Commission Against Corruption (ICAC) Complaints Committee and a director of Heifer International – Hong Kong and Hong Kong Mortgage Corporation Limited (HKMC). In addition, he is an independent non-executive director of CC Land Holdings Limited, Wynn Macau, Limited, Chow Tai Fook Jewellery Group Limited, CWT International Limited (formerly known as HNA Holding Group Co. Limited), i-CABLE Communications Limited, Wing Tai Properties Limited, Analogue Holdings Limited and China Strategic Holdings Limited. Since May 2010, Mr. Lam has been appointed as an Independent Non-executive Director of the Guarantor, and he is currently the members of the Audit Committee and Nomination Committee and the Chairman of the Remuneration Committee of the Guarantor.

MR. LO YIU CHING, DANTES, GBS, JP

Mr. Lo, aged 75, graduated in London in 1970 and further obtained his Master of Science degree in Civil Engineering from the University of Hong Kong in 1980. He is a fellow of the Institution of Civil Engineers, a fellow of the Institution of Structural Engineers and a fellow of the Hong Kong Institution of Engineers.

Mr. Lo had been engaged both in Hong Kong and overseas in the administration, planning, design and supervision of major capital works projects in civil and structural engineering, including multi-storey buildings, slope works, construction of roads and bridges, reclamations and port works and new town development. In 1970, Mr. Lo started his career with Ove Arup & Partners in London as a project engineer. He joined the Hong Kong Government in 1974 as an engineer and was promoted to director of Civil Engineering Department in 1999 and then director of Highways Department in 2000. In 2002, Mr. Lo was appointed the permanent secretary for the Environment, Transport and Works (Works). He retired from the civil service in 2006. Before his retirement, Mr. Lo was awarded the Gold Bauhinia Star (GBS) in recognition of his loyal and distinguished service to the Government and the Hong Kong Community. In particular, he had made valuable contribution in steering forward major public works projects and in promoting quality improvements in the construction industry.

Mr. Lo is a Justice of the Peace. Mr. Lo had been a senior consultant to the Hospital Authority on capital planning and an advisor to CEO of The Airport Authority Hong Kong. He has been appointed as a distinguished adjunct professor in the Department of Civil Engineering, The University of Hong Kong since 2003. Since May 2010, Mr. Lo has been appointed as an Independent Non-executive Director of the Guarantor, members of the Audit Committee, Remuneration Committee and Nomination Committee of the Guarantor. He has also been appointed as the Chairman of the Nomination Committee of the Guarantor with effect from 17 March 2016. In addition, Mr. Lo has been appointed as an independent non-executive director of Build King Holdings Limited with effect from 30 November 2018.

CORPORATE GOVERNANCE

General

The Group strives to raise the standards of corporate governance and regards corporate governance as part of value creation. This reflects the commitment of the Board and senior management on abiding by the standards of corporate governance, as well as our commitment to maintain transparency and accountability to maximise the value of our shareholders as a whole.

The Board of Directors

Responsibilities and Division of Work

The Board is the highest decision-making and managing body of the Guarantor. Having regard to the best interests of the Guarantor and its shareholders, the Board reviews and approves major matters such as the Guarantor's business strategies, budgets, major investments as well as mergers and acquisitions. With respect to the day-to-day operations of the business, the Board has delegated its powers to the Executive Committee and the management. In addition, the directors of the Guarantor have acknowledged that the principal responsibilities of the Board include supervising and administrating the operation and financial position of the Guarantor, enhancing corporate governance practices and promoting the communication with its shareholders.

The roles between the Chairman of the Board and the Chief Executive Officer of the Guarantor are separate to ensure a balance of power and authority.

Mr. Zhuang Yong was appointed as the Chairman of the Board with effect from 11 February 2020 to lead and manage the Board. He is also responsible for ensuring that before any meeting is held, all directors of the Guarantor receive complete and reliable information in a timely manner and that directors of the Guarantor are properly briefed on issues arising at the meetings. He also ensures that the Board works effectively and discharges its responsibilities; good corporate governance practices and procedures are established; and appropriate steps are taken to provide effective communication with shareholders and those views of shareholders are communicated to the Board as a whole. The Chairman of the Guarantor also holds meeting annually with the Independent Non-executive Directors of the Guarantor to discuss corporate governance and other matters without other directors present.

Mr. Yang Lin was appointed as the Chief Executive Officer of the Guarantor with effect from 11 February 2020 and is responsible for the implementation of strategies and objectives set by the Board and for day-to-day management of the Guarantor's businesses.

Internal Control

The Board has implemented effective systems of risk management and internal controls to provide reasonable assurance that the Group's assets are safeguarded, proper accounting records are maintained, reliable financial information are provided for management and publication purposes and significant investment and business risks affecting the Group are identified and properly managed. Furthermore, these systems help the Group comply with applicable laws and regulations, and also internal policies with respect to the conduct of businesses of the Group. However, they are designed to manage rather than eliminate the downside risk to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss.

The Guarantor has established the Intendance and Audit Department (the "Department") so as to enhance a good internal control environment. The Department provides risk management and internal control assessment reports to the management on a regular or ad hoc basis and the Guarantor establishes a number of principal management policies to improve its internal control systems.

The Department also regularly reviews and reports to the Audit Committee and the Board on risk management and internal control affairs of the Guarantor on half-yearly basis. In the report, the Department will discuss the principal business risk faced by the Guarantor and confirm whether the risk management and internal control systems are effective. The Audit Committee will review and evaluate the business risk and the measures to manage such risk. The Audit Committee will also review the Department's findings concerning business and operation control systems and action plans to address any control system weakness. In addition, the external auditors also discuss with the Audit Committee concerning any control issues identified in the course of their audit. After reviewing the effectiveness of the internal control systems, the Audit Committee will then report to the Board any weakness in the system and recommendations to manage the business risk and rectify any control weakness.

The Board is responsible for and has reviewed the efficiency of risk management and internal control systems of the Guarantor and its subsidiaries in aspects such as financial reporting, operation and regulatory compliance throughout 2020 and the Board considers that these systems are effective and efficient. No significant system weaknesses have been identified in the reviews during the year and appropriate actions are also taken to rectify any control deficiencies, if any. The directors of the Guarantor believe that these systems are efficient and effectively control the risks that may have impacts on the Guarantor in achieving its goals.

The Board has also considered the adequacy of resources, qualifications and experience of staff of the Guarantor's accounting, internal audit and financial reporting function, and their training programmes and budget.

The Committees of the Board

As part of good corporate governance, an Executive Committee, an Audit Committee, a Remuneration Committee and a Nomination Committee of the Guarantor have been established. Each of these committees comprises three to four members, the majority of whom (except those of the Executive Committee) are Independent Non-executive Directors of the Guarantor whose independent judgments are important to the execution of the controls and corporate governance standards expected of a publicly listed company. Each committee has its own specific delegated authorities and operates within defined terms of reference. All committees report to the Board in relation to their decisions, findings or recommendations.

Executive Committee

Major responsibilities and functions of the executive committee are to (i) review and approve loans or banking facilities to be granted to the Group and the opening of bank or securities related accounts matters; (ii) review and monitor training and continuous professional development of directors and senior management of the Guarantor; (iii) oversee all matters and formulate policies in relation to the Guarantor's corporate governance functions; and (iv) deal with any other specific business delegated by the Board.

Members of the Executive Committee comprise all Executive directors of the Guarantor.

Audit Committee

As at the date of this Offering Circular, the Audit Committee comprises:

- Dr. Chung Shui Ming, Timpson (Chairman)
- Mr. Lam Kin Fung, Jeffrey
- Mr. Lo Yiu Ching, Dantes

The principal duties of the Audit Committee are to (i) review the financial statements of the Group; (ii) review with the Group's management, external auditor and internal auditor, the adequacy of the Group's policies and procedures regarding internal controls and risk management; and (iii) review risk management and monitor the scope, effectiveness and results of internal audit function.

Remuneration Committee

As at the date of this Offering Circular, the Remuneration Committee comprises:

- Mr. Lam Kin Fung, Jeffrey (Chairman)
- Mr. Yung Kwok Kee, Billy

- Dr. Chung Shui Ming, Timpson
- Mr. Lo Yiu Ching, Dantes

The principal duties of the Remuneration Committee are to (i) make recommendations to the Board on the Guarantor's remuneration policy and structure for all directors' and senior management of the Guarantor; (ii) make recommendations to the Board on the remuneration packages of individual Executive Directors and senior management of the Guarantor; and (iii) review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives.

Nomination Committee

As at the date of this Offering Circular, the Nomination Committee comprises:

- Mr. Lo Yiu Ching, Dantes (Chairman)
- Mr. Zhuang Yong
- Dr. Chung Shui Ming, Timpson
- Mr. Lam Kin Fung, Jeffrey

The major responsibilities and duties of the Nomination Committee are to (i) review the structure, size and composition (including the skills, knowledge and experience) of the Board; (ii) identify individuals suitably qualified to become Board members and make recommendations to the Board on the selection of individuals nominated for directorships; (iii) assess the independence of Independent Non-executive Directors of the Guarantor; and (iv) make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors of the Guarantor.

Senior Management

With the assistance of heads of departments, the businesses and operations of the Group are under the direct responsibilities of the Executive Directors of the Guarantor, and the Executive Directors are therefore regarded as the senior management staff of the Guarantor.

SUBSTANTIAL SHAREHOLDERS' AND DIRECTORS' INTEREST

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at the date of this Offering Circular, the following persons and companies (other than directors or the chief executive of the Guarantor) were interested in the shares and underlying shares of the Guarantor as recorded in the register maintained by the Guarantor pursuant to Section 336 of the SFO:

<u>Name of substantial shareholders</u>	<u>Capacity</u>	<u>Nature of interests</u>	<u>Number of ordinary share held</u>	<u>Aggregate long position</u>	<u>Per cent. of shares in issue⁽¹⁾</u>
China State Construction Engineering Corporation ("CSCEC")	Interest of controlled corporation ⁽²⁾	Interest in controlled corporation	1,311,965,566	1,311,965,566	38.32%
Diamond Key Enterprises Inc. ("Diamond Key")	Beneficial owner ⁽³⁾	Beneficial	200,910,903	200,910,903	5.87%
On Fat Profits Corporation ("On Fat")	Beneficial owner ⁽³⁾	Beneficial	181,706,786	181,706,786	5.31%
UBS TC (Jersey) Ltd. ("UBS TC")	Trustees of trusts ⁽³⁾	Other	382,617,689	382,617,689	11.18%

Notes:

- (1) The percentage is based on the total number of shares of the Guarantor in issue as at the date of this Offering Circular (i.e. 3,423,359,841 shares).
- (2) CSCEC is interested in 1,311,965,566 shares which comprises 1,262,211,316 shares held by Star Amuse Limited ("Star Amuse") and 49,754,250 shares held by Chung Hoi Finance Limited ("Chung Hoi"). Star Amuse is a wholly-owned subsidiary of Big Crown Limited ("Big Crown"). Big Crown and Chung Hoi are wholly-owned subsidiaries of COLI which in turn is a non-wholly owned subsidiary of COHL. COHL is a subsidiary of CSCECL which in turn is a non-wholly owned subsidiary of CSCEC.
- (3) 382,617,689 shares held by UBS TC (including 200,910,903 shares and 181,706,786 shares held by Diamond Key and On Fat, respectively) are disclosed in "Directors' and Chief Executive's Interests" below as being held under a trust with Mr. Yung Kwok Kee, Billy and his family members as the beneficiaries. None of the directors of the Guarantor are directors or employees of On Fat and Diamond Key.

Save as disclosed above, the Guarantor had not been notified by any other person (other than the directors or chief executive of the Guarantor) who had an interest in the shares and underlying shares of the Guarantor as recorded in the register required to be kept by the Guarantor pursuant to Section 336 of the SFO as at the date of this Offering Circular.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

As at the date of this Offering Circular, the directors and the chief executive of the Guarantor had the following interests in the shares and underlying shares of the Guarantor and its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register maintained by the Guarantor pursuant to Section 352 of the SFO, or as otherwise notified to the Guarantor and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules of the Hong Kong Stock Exchange ("Model Code"):

<u>Name of Directors</u>	<u>Capacity</u>	<u>Nature of interests</u>	<u>Number of ordinary share held</u>	<u>Aggregate long position</u>	<u>Per cent. of shares in issue⁽¹⁾</u>
Mr. Yang Lin	Beneficial owner	Personal	2,550,000	2,896,125	0.08%
	Interest of spouse	Family	346,125		
Mr. Yung Kwok Kee, Billy	Beneficial owner	Personal	17,849,999	463,045,980	13.53%
	Beneficiary of a trust ⁽²⁾	Other	382,617,689		
	Interest of controlled corporation ⁽³⁾	Interest of controlled corporation	62,578,292		
Dr. Chung Shui Ming, Timpson	Beneficial owner	Personal	544,875	544,875	0.02%

Notes:

- (1) The percentage is based on the total number of shares of the Guarantor in issue as at the date of this Offering Circular (i.e. 3,423,359,841 shares).
- (2) These shares are held by a trust for the benefit of Mr. Yung Kwok Kee, Billy and his family members.
- (3) These shares are held by Extra-Fund Investment Limited, a wholly-owned subsidiary of Shell Electric Holdings Limited, which in turn is owned as to 80.47% by Red Dynasty Investments Limited, a company wholly owned by Mr. Yung Kwok Kee, Billy.

Save as disclosed above, no interests and short positions were held or deemed or taken to be held under Part XV of the SFO by any director or chief executive of the Guarantor or their respective associates in the shares, underlying shares and debentures of the Guarantor or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Guarantor and the Hong Kong Stock Exchange pursuant to Part XV of the SFO or pursuant to the Model Code or which are required pursuant to Section 352 of the SFO to be entered in the register referred to therein. None of the directors and chief executive of the Guarantor (including their spouses and children under the age of 18) had, as at the date of this Offering Circular, any interest in, or had been granted any rights to subscribe for the shares, options and debentures of the Guarantor or its associated corporations (within the meaning of Part XV of the SFO), or had exercised any such rights.

RELATIONSHIP WITH CSCEC, CSCECL, COHL AND COLI

CSCECL, a 56.31 per cent.-owned subsidiary of CSCEC (as at 28 January 2021), wholly owns COHL, which holds approximately 56.04 per cent. of the issued share capital of COLI (as at 28 January 2021), which in turn holds 38.32 per cent. of the Guarantor as at the date of this Offering Circular. The Guarantor therefore is ultimately controlled by CSCEC, a state-owned construction group.

CSCEC was established in 1982 and is the parent company of one of the largest construction groups in the PRC and one of the world's largest construction contractors, operating in major provinces and cities in the PRC. It engages in construction, property development and related business operations outside the PRC and Hong Kong, including in Africa, the Middle East, Southeast Asia and the United States. CSCEC is one of the 97 core state-owned enterprises under the direct supervision of SASAC of the State Council to the PRC government. CSCEC's operating subsidiary, CSCECL, which was established in 2007, was listed on the Shanghai Stock Exchange in 2009.

COHL began operating in Hong Kong in September 1989. It is the controlling shareholder of five companies listed on the Hong Kong Stock Exchange, namely, COLI (stock code 00688.HK), CSC (stock code 03311.HK), CSCD (stock code 00830.HK), CPH (stock code 02669.HK) and the Guarantor (stock code 00081.HK), principal business activities of which include property development, property investment, construction business, infrastructure investments, prefabricated constructions, engineering consultancy and facade contraction business, property management, property leasing and investment holding, with business operations in the PRC, Hong Kong, Macau as well as the United Arab Emirates.

COLI is an investment holding company with operations in the PRC, Hong Kong, Macau and London. It was incorporated on 1 June 1979 in Hong Kong and has been listed on the Hong Kong Stock Exchange since 1992. COLI is a major property developer in the PRC. COLI's main sources of revenue are from development and sale of residential and commercial properties through its subsidiaries in the PRC, Hong Kong and Macau. Although COLI's relationship with CSCEC and CSCECL may provide it with significant business advantages, the relationship results in various related party, or "connected", transactions. Each of CSCEC, CSCECL, COHL and COLI is a connected person of the Guarantor for the purposes of the Listing Rules of the Hong Kong Stock Exchange.

While the Guarantor enjoys a high degree of autonomy in its daily operations, CSCEC, CSCECL, COHL and COLI together play a strategic and important role in the Guarantor's overall corporate planning, including new acquisitions, the appointment and/or replacement of the Guarantor's board of directors and senior management, and the Guarantor's capital expenditures and budgeting. In addition, Mr. Zhuang Yong, Chairman and Executive Director of the Guarantor, is also a non-executive director and vice chairman of the board of directors of COLI and a director of COHL. Meanwhile, Mr. Yan Jianguo, former Chairman and current Non-executive Director of the Guarantor, also serves as the chairman and executive director of COLI, as well as the chairman and president of COHL, the COLI's holding company.

The Guarantor currently engages in financial and commercial transactions with COLI, CPH, CSC and their respective subsidiaries and associates. All such transactions are conducted on an arm's length and commercial basis.

On 28 July 2017, the Group entered into tenancy agreements (the "2017 Tenancy Agreements") with two subsidiaries of COLI, namely Beijing Ren He Yan Du Real Estate Development Co., Ltd. (北京仁和燕都房地產開發有限公司) and Beijing Zhong Xin Xin Cheng Yi Hai Real Estate Development Co., Ltd. (北京中信新城逸海房地產開發有限公司), respectively. Both of these tenancy agreements commenced on 1 August 2017 and ended on 31 July 2020. The annual rent payable by Beijing Ren He Yan Du Real Estate Development Co., Ltd. and Beijing Zhong Xin Xin Cheng Yi Hai Real Estate Development Co., Ltd. are RMB10,260,000 and RMB5,145,000, respectively. The total rental payable under the 2017 Tenancy Agreements for each of the twelve-month period between 1 August 2017 and 31 July 2020 shall not exceed RMB15,405,000.

On 20 October 2017, the Guarantor and Copenhague Property Holdings Limited (COPH), a 61.18 per cent. owned subsidiary of COHL, entered into a framework agreement (the “New Projects Framework Agreement”) pursuant to which COPH and its subsidiaries (the “COPH Group”) may provide property management services and engineering services to the Group for certain property development projects in several emerging third-tier cities in the PRC acquired by the Group from a member of COLI and its subsidiaries (the “COLI Group”) in December 2016. The New Projects Framework Agreement commenced on 1 January 2018 and ended on 30 June 2020.

On 20 October 2017, the Guarantor and COPH also entered into another framework agreement (the “Prevailing Projects Framework Agreement” and, together with the New Projects Framework Agreement, the “Projects Framework Agreements”) to increase the annual caps and extend the scope of services under the property management agreement entered into by the Guarantor and COPH on 1 June 2015 (the “Property Management Agreement”), pursuant to which COPH may provide property management services to the Group, and to renew the transaction underlying the Property Management Agreement. Pursuant to the Prevailing Projects Framework Agreement, any member of the COPH Group may provide property management services and engineering services to the Group for property development projects in the PRC, Hong Kong, Macau and other locations (excluding those projects acquired from COLI in December 2016). The Prevailing Projects Framework Agreement commenced on 1 January 2018 and ended on 30 June 2020.

On 26 June 2018, the Guarantor and CSCD, a 74.06 per cent. owned subsidiary of COHL, entered into a framework agreement (the “COGO Framework Agreement”) pursuant to which the Group may appoint CSCD and its subsidiaries (the “CSCD Group”) to provide project management, supervision and consultancy services for the property development projects of the Group in the PRC. The COGO Framework Agreement covers a period commenced from 1 July 2018 and ending on 30 June 2021. Pursuant to the COGO Framework Agreement, the maximum total contract sum that may be awarded by the Group to the CSCD Group for the period from 1 July 2018 to 31 December 2018, each of the two years ended 31 December 2020 and for the period from 1 January 2021 to 30 June 2021 shall not exceed HK\$30 million, HK\$60 million, HK\$60 million and HK\$30 million, respectively.

On 27 June 2019, the Guarantor and CSCECL entered into an agreement (the “CSCECL Group Engagement Agreement”) whereby CSCECL and its subsidiaries but excluding COHL and its subsidiaries (the “CSCECL Group”) may tender for the Group’s construction works in the PRC and if tender is awarded, the CSCECL Group may act as construction contractor for the Group. The CSCECL Group Engagement Agreement commenced on 1 July 2019 and will end on 30 June 2022. According to the CSCECL Group Engagement Agreement, the maximum total contract sum that may be awarded by the Group to the CSCECL Group for the period between 1 July 2019 and 31 December 2019, each of the two years ending 31 December 2021 and for the period from 1 January 2022 to 30 June 2022 shall not exceed HK\$300 million, HK\$600 million, HK\$600 million and HK\$300 million, respectively.

On 23 October 2019, the Guarantor and COPH entered into a framework agreement (the “Framework Agreement for Car Parking Spaces”) pursuant to which the COPH Group may from time to time enter into transactions with the Group for the acquisition of right-of-use of car parking spaces (including the right to occupy, assign or rent out, until the land use right(s) of the relevant project(s) at which the car parking spaces are located expire), such car parking spaces being car parking spaces of developments or properties built, developed or owned by the Group and managed by the COPH Group as property manager. The Framework Agreement for Car Parking Spaces commenced on 1 December 2019 and will end on 30 November 2022. The annual caps during the term of the Framework Agreement for Car Parking Spaces for the period from 1 December 2019 to 31 December 2019, for the financial years ending 31 December 2020 and 2021 and for the period from 1 January 2022 to 30 November 2022 shall not exceed nil, HK\$400 million, HK\$300 million and HK\$300 million, respectively.

On 27 February 2020, the Guarantor and Hua Yi Design Consultants Limited (“Huayi Design”), a wholly-owned subsidiary of COLI, entered into a framework agreement, pursuant to which the Group may engage Huayi Design and its subsidiaries (the “Huayi Design Group”) to provide design services to the Group’s property development projects in the PRC upon successful tender awarded to the Huayi Design Group. The framework agreement commenced on 1 March 2020 and will end on 31 December 2022. The maximum total contract sum that may be awarded by the Group to the Huayi Design Group for the period from 1 March 2020 to 31 December 2020, each of the two years ending 31 December 2022 shall not exceed RMB30 million, RMB40 million and RMB50 million, respectively.

On 26 March 2020, the Guarantor and COLI entered into a renewal trademark licence agreement (the “2020 Trademark Licence Agreement”), pursuant to which COLI grants a non-exclusive right to the Group, a licence to use the trademark “中海地產” in the PRC for a term commencing from 1 April 2020 and ending on 31 March 2023. Pursuant to the 2020 Trademark Licence Agreement, the Guarantor agrees to pay 1 per cent. of its audited annual consolidated turnover for each financial year ending 31 December 2020, 2021 and 2022 as royalty. The royalty payments are to be made in arrears on or before 31 March each succeeding year until the expiry or earlier termination of the 2020 Trademark Licence Agreement. The total royalty payable under the 2020 Trademark Licence Agreement for each of the twelve-month period between 1 April 2020 and ending on 31 March 2023 shall not exceed HK\$200,000,000.

On 1 April 2020, five subsidiaries of the Guarantor entered into property lease agreements (the “Five Property Lease Agreements”) with five subsidiaries of COLI, for a period of three years for five properties located in Shanghai, Beijing, Lanzhou, Huizhou and Shantou. Since 1 April 2020, the 2017 Tenancy Agreements mentioned above were consolidated into the relevant agreement for the property in Beijing of the Five Property Lease Agreements. The total maximum rent under the Five Property Lease Agreements for the financial years ending 31 December 2020, 2021, 2022 and 2023 shall not exceed RMB136,958,300, RMB222,530,000, RMB238,162,500 and RMB98,349,100 respectively.

On 24 April 2020, the Guarantor and CSC, a 64.66 per cent. owned subsidiary of COHL, entered into a master agreement (the “April Master Agreement”), pursuant to which the Group may engage any member of CSC and its subsidiaries but excluding any listed subsidiaries (the “CSC Group”) as construction contractor for the Group’s construction works in the PRC upon the CSC Group’s successful tender. The April Master Agreement commenced on 1 July 2020 and will end on 30 June 2021. The maximum total contract sum that may be awarded by the Group to the CSC Group for the period from 1 July 2020 to 31 December 2020 and for the period from 1 January 2021 to 30 June 2021 shall not exceed HK\$1,000 million and HK\$500 million, respectively.

On 28 April 2020, the Guarantor and COPH entered into a renewal framework agreement (the “Renewal Framework Agreement”) to increase the annual caps and extend the scope of services under the Projects Framework Agreements and to renew the transaction underlying the Projects Framework Agreements. Pursuant to the Renewal Framework Agreement, any member of the COPH Group may provide property management services and value-added services to the Group for property development projects or properties owned or held by the Group in the PRC, Hong Kong, Macau and other locations (including those projects acquired from the COLI Group in December 2016 that were not managed by the COPH Group at the time the New Projects Framework Agreement was entered into). The Renewal Framework Agreement commenced on 1 July 2020 and will end on 30 June 2023. The maximum total amount payable by the Group for these services for the period from 1 July 2020 to 31 December 2020, the financial years ending 31 December 2021 and 2022 and for the period from 1 January 2023 to 30 June 2023 shall not exceed HK\$166 million, HK\$321 million, HK\$386 million and HK\$224 million respectively.

On 19 November 2020, the Guarantor and CSC entered into a new master engagement agreement (the “New Master Agreement”) whereby (i) CSC Group may tender for the Group’s construction works in the PRC as construction contractor in accordance with the tendering procedures of the Group from

time to time for a term of three years commenced from 1 January 2021 and ending on 31 December 2023; and (ii) the Group may engage the CSC Group as construction contractor for the Group's construction works in the PRC upon the CSC Group's successful tender. The maximum total contract sums of the construction contracts that may be awarded by the Group to the CSC Group under the New Master Agreement for the financial years ending 31 December 2021, 2022 and 2023 shall not exceed RMB2,000 million, RMB2,500 million and RMB3,000 million respectively. The New Master Agreement replaced and superseded all rights and obligations of the parties under the April Master Agreement starting from 1 January 2021.

On 19 November 2020, the Guarantor and COLI entered into a framework agreement whereby (i) the COLI Group may supply the materials in relation to the works in the categories of civil engineering works, electrical and mechanical works and decoration including doors and other construction materials (the "Materials") for the property development projects owned or developed/to be developed by the Group in the PRC (the "Projects") upon the Group's request in accordance with the tendering procedures of the Group from time to time for a term of three years commencing from 1 January 2021 and ending on 31 December 2023; and (ii) the Group may engage the COLI Group as supplier of the Materials for the Projects upon the COLI Group's successful tender. The maximum total contract sum that may be awarded by the Group to COLI Group for the supply of Materials for the Projects by the COLI Group to the Group for each of the financial years ending on 31 December 2021, 2022 and 2023 shall not exceed RMB1,600 million.

For other related party transactions information and more details, please see note 48 to the audited consolidated financial statements of the Guarantor as at and for the year ended 31 December 2019, included elsewhere in this Offering Circular.

INDUSTRY OVERVIEW

The information in the section below has been derived, in part, from various government publications unless otherwise indicated. This information has not been independently verified by the Group, the Joint Lead Managers, the Trustee, the Agents or any of the Group's or their respective affiliates or advisors. The information may not be consistent with other information compiled within or outside the PRC.

THE ECONOMY OF THE PRC

For over 25 years, the PRC government has introduced reforms that have transformed the PRC economy from a centrally planned system into a more liberalised market economy. The significant economic development that has resulted from such reforms has been accelerated by China's accession to the World Trade Organisation in 2001. China has experienced an average annual real GDP growth rate of approximately 6.78 per cent. from 2014 to 2019. In addition, GDP per capita grew at a CAGR of 8.42 per cent. from 2014 to 2019.

The table below sets forth selected PRC economic statistics for the years indicated:

	2014	2015	2016	2017	2018	2019	2014-2019 CCAGR (%)
Nominal GDP (RMB billion, except CAGR)	64,397	68,905	74,359	82,712	90,031	99,087	9.00
Real GDP growth (per cent.).	7.3	6.9	6.7	6.9	6.6	6.1	-
GDP per capita (RMB, except CAGR)	47,203	50,251	53,935	59,660	64,644	70,725	8.42
CPI growth (per cent.)	2.0	1.4	2.0	1.6	2.1	2.9	-
Per capita disposable income of urban residents (RMB, except CAGR)	28,844	31,195	33,616	36,396	28,228	30,733	1.28
Retail sales of consumer goods (RMB billion, except CAGR)	27,190	30,093	33,232	36,626	38,099	40,802	8.46
Foreign direct investment (US\$ billion, except CAGR)	120	126	126	131	135	138	2.83
Fixed asset investment (RMB billion, except CAGR)	51,202	56,200	60,647	64,124	64,568	56,087	1.84

Source: National Bureau of Statistics of China

Notes:

- (1) N/A represents not applicable.
- (2) CAGR refers to compound annual growth rate.

Housing reforms, together with the economic growth of China and increasing urbanisation rate, are key factors in creating a real estate market in China and in sustaining the growth of China's real estate market. According to the National Bureau of Statistics of China, China's urbanisation rate, i.e. the proportion of the population residing in urban areas, rose from approximately 54.8 per cent. in 2014 to approximately 60.6 per cent. in 2019. Increases in the urban population of China will likely result in increases in demand for residential properties.

The table below shows China's urbanisation rate for the periods indicated.

	2014	2015	2016	2017	2018	2019
Total population (millions)	1,368	1,375	1,383	1,390	1,395	1,400
Urban population (millions)	749	771	793	813	831	848
Urbanisation rate (per cent.)	54.8	56.1	57.3	58.5	59.6	60.6

Source: National Bureau of Statistics of China

PRC PROPERTY MARKET

Reform of the PRC property market did not commence until the 1990s. Prior to such reform, the PRC real estate development industry was part of the nation's centrally planned economy. In the 1990s, the PRC government initiated the housing reform and, as a result, the real estate and housing sector of China began its transition to a market-based system.

In 1988, the NPC amended the national constitution to permit the transfer of state-owned land use rights and, in 1992, sales commenced in major cities of formerly public housing. Two years later, in 1994, the PRC government further implemented the reform and established an employer/employee-funded housing fund, and promulgated a regulation regarding pre-sale of commodity housing in cities. In 1995, the PRC government promulgated regulations regarding the transfer of real estate, establishing a regulatory framework for real estate sales and subsequently abolished the state-allocated housing policy in 1998. In 1999, the PRC government extended the maximum mortgage term to 30 years and formalised procedures for the sale of real estate in the secondary market.

The PRC government promulgated regulations to standardise the quality of construction projects in 2000, establishing a framework for administering construction quality. In 2002, the PRC government promulgated rules to require that state-owned land use rights be granted by way of tender, auction and listing-for-sale and eliminated the dual system for domestic and overseas home buyers in China. Moreover, in 2007, the PRC government revised the rules according to which the property developers must fully pay the land premium for the entire parcel under the land grant contract before they will receive a land use right certificate. In 2003, the PRC government also promulgated rules to require more stringent administration of real estate financing for the purpose of reducing credit and systemic risks associated with such financing.

Through 2013, to prevent the overheating of the PRC economy and to achieve a balanced and sustainable economic growth, the PRC government took measures to control money supply, credit availability and fixed assets investment. The PRC government also took measures to discourage speculation in the residential property market and to increase the supply of affordable housing rather than high-end residential properties. In response to concerns over the scale of the increase in property investment, the PRC government introduced policies and measures to restrict such increases.

On 21 January 2011, the State Council promulgated the Regulation on Expropriation and Compensation Related to Buildings on State-owned Land (《國有土地上房屋徵收與補償條例》)(the "Expropriation and Compensation Regulation"), which replaced the Administration Rules of Demolition and Removal of Housing in Urban Areas (《城市房屋拆遷管理條例》). The Expropriation and Compensation Regulation provides that, among other things: (i) buildings can be expropriated under certain circumstances for public interests, and only governmental authorities can be in charge of resettlement activities; real estate developers are prohibited from being involved in demolition and relocation procedures; (ii) compensation shall be paid before the resettlement; (iii) compensation to owners of properties to be demolished cannot be less than the market value of similar properties at the time of expropriation; and (iv) neither violence nor coercion may be used to force homeowners to leave sites, nor can certain measures, such as illegally cutting off water and power supplies, be used in relocation work. The market value of properties shall be determined by qualified real estate appraisal

institutions in accordance with appraisal rules related to property expropriation. Any owner who does not agree with the appraised market value of the property can apply to the real estate appraisal institution for re-appraisal.

In January 2011, the General Office of the State Council issued the Notice on Further Improving the Regulation of the Real Estate Market (《國務院辦公廳關於進一步做好房地產市場調控工作有關問題的通知》)(國辦發(2011)1號), which provides that the minimum down payment was to be raised to 60 per cent. for the purchase of a second residential property with the minimum lending interest rate at least 1.1 times the benchmark rate.

The State Council has approved on a trial basis the launch of a property tax scheme in selected cities. On 27 January 2011, each of the local governments of Shanghai and Chongqing issued its respective measures for implementing its pilot property tax schemes.

On 16 March 2011, the National Development and Reform Commission promulgated the Regulation on Price of Commodity Property (《商品房銷售明碼標價規定》), which became effective on 1 May 2011. According to the regulation, property developers are required to make public the sale price of each apartment of commodity properties for sale or pre-sale and the number of apartments available for sale or pre-sale within a certain time period. Property developers are also required to state factors that would affect housing prices and relative charges before the property transaction, such as a commission fee and property management fee. No additional charge beyond what is stated in the price tag or made public by the property developers is permitted.

On 9 June 2011, the National Development and Reform Commission issued the Notice of Use of Debt Financing Support Construction of Affordable Housing Related Issues, Finance Office of Development and Reform Commission (《關於利用債券融資支持保障性住房建設有關問題的通知》)(發改辦財金(2011) 1388號). Under this notice, in order to reach the goal of building 36 million units of affordable housing under the Twelfth Five-Year Plan, eligible local governments' investment and financing platforms and other enterprises are encouraged to issue corporate notes to finance construction of affordable housing projects. Local governments' investment and financing platforms and other enterprises seeking funding to engage in the construction of public rental housing, low-rent housing, price-limited housing, shanty town transformations and other affordable housing projects which meet the requirements and related conditions specified by the National Development and Reform Commission can apply for financing through the issuance of corporate notes. The National Development and Reform Commission requires that funds raised from corporate notes issued by local governments' investment and financing platforms be prioritised for use in the construction of local affordable housing.

On 12 July 2011, then Premier Wen Jiabao and the State Council stressed that the macro-control policy on the PRC property market would continue to be strengthened. As at 30 June 2011, the construction of over 5 million units of affordable housing had been launched which exceeded 50 per cent. of the target number of units for 2011.

In 2011, the PBOC raised the Renminbi deposit reserve ratio by 0.5 per cent. six times, on 20 January, 24 February, 25 March, 21 April, 18 May and 20 June 2011, respectively. As a result, the deposit reserve ratio for small and median size financial institution increased from 18.5 per cent. as at 20 January 2011 to 21.5 per cent. as at 20 June 2011. On 5 December 2011, however, the Renminbi deposit reserve ratio was adjusted downward by 0.5 per cent. to 21.0 per cent., which was the first time in almost three years since 25 December 2008 that ratio had been adjusted downward. Interest rates on deposits and borrowings were each raised on three occasions in 2011, on 9 February, 6 April and 7 July 2011, respectively. On 7 July 2011, the one-year interest rates on deposits and borrowings were increased from 3.25 per cent. to 3.5 per cent. and from 6.31 per cent. to 6.56 per cent., respectively, as the PRC government sought to manage inflationary expectations and promote a gradual normalisation of monetary conditions. However, the amount of bank loans and other financing instruments granted to participants in the PRC real estate industry declined in 2011 from their previous level in 2010.

In 2012, the PRC government continued to monitor housing market activities and repeatedly stated that property regulating measures would be kept in place to prevent a rebound of housing prices.

On 15 February 2012, the Ministry of Land and Resources promulgated the Notice on the Key Tasks for Accomplishing Effective Real Estate Land Administration and Control in 2012 (《國土資源部關於做好2012年房地產用地管理和調控重點工作的通知》) which stipulates the following:

- Real estate control policy shall be strictly implemented and key tasks shall be clarified;
- Real estate land supply shall be properly managed to promote social welfare;
- Land supply for social security housing projects shall be guaranteed;
- Unlawful acts relating to land use shall be strictly punished;
- Development and construction shall be vigorously encouraged; and
- Supervisory analysis and media coverage shall be strengthened to provide positive guidance towards the market.

In May 2012, the Ministry of Land and Resources issued the Circular on the Distribution of the Catalogue for Restricted Land Use Projects (2012 Version)(限制用地項目目錄(2012年本)) and the Catalogue for Prohibited Land Use Projects (2012 Version)(禁止用地項目目錄(2012年本)), as replacements to their 2006 versions. The 2012 versions set forth maximum quotas for land that may be granted by local governments for commodity housing development as follows: 7 hectares for small cities and towns, 14 hectares for medium-sized cities and 20 hectares for large cities.

On 1 July 2012, the revised Measures for the Disposal of Idle Land (《閒置土地處置辦法》)(the “Measures”) promulgated by Ministry of Land and Resources became effective. According to the Measures, land that has been idle for one full year will be subject to an idle land penalty of 20 per cent. of the grant or allocation price of the land, to be imposed by authorities at the municipal or county level. In the event that land has been idle for more than two years, the land and resources authorities may reclaim the land use rights without compensation to the grant holder. The Measures will increase the responsibilities of municipal and county level governments and improve procedures for identifying and making productive use of idle land.

On 19 July 2012, the Ministry of Land and Resources and the Ministry of Housing and Urban-Rural Development jointly issued the Urgent Notice to Further Tighten Up Real Property Land Administration and Consolidate the Achievement of Macroeconomic Control of the Real Property Market (《關於進一步嚴格房地產用地管理鞏固房地產市場調控成果的緊急通知》) to strengthen the enforcement of macroeconomic policy in the real property market. In accordance with the notice, local governments must strictly implement the macroeconomic control policies for the real property market and must secure the supply of residential land, especially land used for development of subsidised residential units. Residential construction projects must commence within one year of the delivery date of the land title, which is stipulated in the land allocation decision or land grant contract, and must be completed within three years of the date of commencement of the project.

On 5 November 2012, the Ministry of Land and Resources, the Ministry of Finance, the PBOC and CBRC jointly promulgated the Notice on Strengthening Land Reserves and Financing Administration (《關於加強土地儲備與融資管理的通知》(國土資發[2012]162號)) in order to strengthen land bank institutions administration, determine the reasonable scale and structure of land bank, strengthen the administration of land pre-development, reservation and protection, and regulate the financing to land reservation and the use of land reservation funds.

On 20 February 2013, the Standing Committee of the State Council released five new policies aimed at regulating the real estate market, including new initiatives aimed at controlling speculative property investments, increasing housing and land supply, and stepping up construction of affordable housing.

On 26 February 2013, the General Office of State Council issued the Notice to Further Enhance the Regulation and Control of the Real Estate Market (《國務院辦公廳關於繼續做好房地產市場調控工作的通知》(國辦發[2013]17號)), which includes an income tax levy on homeowners of as high as 20 per cent. on income made from selling their homes. The notice also stated that local branches of the central bank could increase their down payment rate and mortgage loan interest rate for home buyers purchasing a second unit pursuant to the local governments' goals and policy requirements. Furthermore, the notice stipulated that non-local families who have one or more units or without a certain number of years of tax payment certificates or social security certificates would be banned from buying homes in the cities in which they currently reside.

On 29 September 2014, the PBOC and CBRC issued the Circular of the People's Bank of China and the China Banking Regulatory Commission on Further Improving Financial Services for Housing Consumption (《關於進一步做好住房金融服務工作的通知》) which specifies that for a family who buys on loan its first ordinary residential property for self-use, the minimum percentage of down payment is 30 per cent., and the lower limit of loan interest rate is 70 per cent. of the benchmark rate, to be decided by banking financial institutions in light of risk conditions; for a family who has paid up the loan of its first residential property and applies again to buy on loan an ordinary residential property as an upgrade to living conditions, the loan policies for first residential property shall apply. The circular also specified that in cities where the measures of "restrictions on house buying" are lifted or not imposed, for a family who owns two or more residential properties and has paid up loans for them, and applies to buy another residential property on loan, banking financial institutions shall decide on the percentage of down payment and interest rate by prudently considering the borrower's solvency and credit status. The banking financial institutions may, according to local plans on urbanisation, grant housing loans to non-local residents who meet policy requirements.

On 30 March 2015, the People's Bank of China, the Ministry of Housing and Urban-rural Development and the China Banking Regulatory Commission jointly issued the Notice on Issues concerning Individual Housing Loan Policies (《關於個人住房貸款政策有關問題的通知》), for a resident who owns one house of which relevant housing loan has not been settled, and applies for a commercial individual housing loan for purchasing an ordinary home for the purpose of improving its living conditions, the minimum down payment ratio is adjusted to not less than 40 per cent.; for a worker who pays housing provident fund to purchase the first ordinary with housing provident fund commission loan, the minimum down payment ratio is 20 per cent.; and for a worker who owns one home of which relevant housing loan has been settled and applies for a housing provident fund commission loan for purchasing an ordinary home for the purpose of improving its living conditions, the minimum down payment ratio is 30 per cent.

On 30 March 2015, the Ministry of Finance and the State Administration of Taxation jointly issued the Notice on Adjusting the Policy of Business Tax on Re-sale of Personal Residential Properties (《關於調整個人住房轉讓營業稅政策的通知》)(財稅[2015]39號), under which business tax is imposed on (i) the full amount of the transfer price upon the transfer of any residential property by an individual owner within two years from such individual owner's purchase of such property and (ii) the difference between the transfer price and the original purchase price upon the transfer of any non-ordinary residential property by an individual owner more than two years from such individual owner's purchase. Business tax is exempted for ordinary residential properties if the transfer occurs after two years from the individual owner's purchase of such property. This notice became effective on 31 March 2015.

On 19 August 2015, the Ministry of Housing and Urban-rural Development, the Ministry of Commerce, National Development and Reform Commission, the PBOC and State Administration of Industry and Commerce, issued the Circular of the Ministry of Housing and Urban-rural Development and Other Authorities on Adjusting Policies on the Market Access and Administration of Foreign Investment in the Real Estate Market, which allowed overseas companies' Chinese units and foreign nationals working and living in China to buy properties for their own use. This represented a reversal of a 2006 law that banned foreign citizens living and working in China for less than a year from buying a home in the country, and for foreign property companies with registered capital less than half of their total investments.

On 1 February 2016, Circular of the People's Bank of China and the China Banking Regulatory Commission on Issues concerning Adjusting the Individual Housing Loan Policies was issued, which provided that for the cities without housing restriction policy, the minimum down payment for first home purchase and second home purchase is set to be 25 per cent. and 30 per cent., respectively, of the purchase price. Various regions may decrease by 5% based on the 25 per cent. minimum down payment for first home purchase. From 1 May 2016, the reform to replace business tax with value-added tax is implemented nationwide and expanded to cover several key sectors such as real estate, construction, financial services and lifestyle services.

In 2016, China's housing market is marked by new highs with record-breaking sales and price growth. From 30 September 2016 to date, Beijing, Shanghai, Guangzhou, Shenzhen, Tianjin, Suzhou, Zhengzhou, Wuxi, Hefei, Wuhan, Nanjing Fuzhou, Foshan, Dongguan, Huizhou, Hangzhou and other cities have issued new property market control policies, including restoring the restriction on purchases of residential properties and tightening credit policy. On 12 October 2016, the Ministry of Housing and Urban-rural Development required investigation and punishment of persons or entities that spread rumours, deliberately hype or disrupt the market to protect the rights and interests of housing buyers.

On 23 December 2017, an internal meeting of the Minister of Housing and Urban-Rural Development indicated that the government would establish a housing system that ensures supply through multiple sources, provide support through multiple channels, and encourage both housing purchase and renting in 2018. The government will apply a differentiated property policy based on local conditions and divide power between central and local governments and promote the steady and healthy development of the real estate market. While imposing control measures on the residential property market, the policy thrust is to meet basic housing needs for first home buyers as well as upgraders demand.

The PBOC increased the benchmark one-year lending rate nine times between October 2004 and December 2007, from 5.58 per cent. to 7.47 per cent. In 2008, the PBOC reduced the benchmark one-year lending rate five times, from 7.47 per cent. to 5.3 per cent. Since late 2009, the PRC government introduced a new round of austerity measures to control the growth of the economy, including increasing the benchmark one-year lending rate five times between October 2010 and July 2011, to 6.56 per cent. The PBOC subsequently lowered the benchmark one-year lending rate in June and July 2012, and on 21 November 2014, 1 March 2015 and 24 October 2015, resulting in a new benchmark one-year lending rate of 4.35 per cent., with deposit rate ceiling changing from 1.1 times to 1.5 times benchmark rates.

Since 2014, the deposit reserve ratio of all financial institutions has been cut by 0.5 per cent. on 5 February 20 April 2015, 1 March 2016 15 January, 25 January, 16 September 2019 and 1 January 2020 and 6 September, 24 October 2015, 25 April, 5 July and 15 October 2018, respectively, the deposit reserve ratio of large commercial bank has been respectively cut by 0.5 per cent, to a current deposit reserve ratio of 12.5 per cent.

For additional information on housing reforms and recent regulatory developments with respect to the property industry of China, see "*PRC Regulation*".

REAL PROPERTY SALES

Demand for real estate in China has seen a steady increase over the years. According to the National Bureau of Statistics of China, the total sales revenue of commodity properties in China increased from approximately RMB7,629 billion in 2014 to approximately RMB15,973 billion in 2019 at a CAGR of 15.93 per cent. During the same period, the total GFA of commodity properties sold in China increased from approximately 1,206 million square metres in 2014 to approximately 1,716 million square metres in 2019 at a CAGR of 7.31 per cent.

The average price of commodity properties sold in China increased from RMB6,324 per square metre in 2014 to RMB9,310 per square metre in 2019. The average price of commodity properties sold was calculated by dividing total sales proceeds by the aggregate GFA sold.

The table below sets out selected statistics relating to the PRC property market for the years indicated.

	2014	2015	2016	2017	2018	2019	2014-2019 CCAGR (%)
Real estate investment (RMB billion, except CAGR)	9,504	9,598	10,258	10,980	12,026	13,219	6.82
Investment in real estate development in residential properties (RMB billion, except CAGR)	6,435	6,460	6,870	7,515	8,519	9,707	8.57
Total GFA of commodity properties sold (million sq.m., except CAGR)	1,206	1,285	1,573	1,694	1,715	1,716	7.31
Total GFA of residential properties sold (million sq.m., except CAGR)	1,052	1,124	1,375	1,448	1,478	1,501	7.37
Average price of commodity properties (RMB per sq.m., except CAGR)	6,324	6,793	7,476	7,892	8,726	9,310	8.04
Average price of residential properties (RMB per sq.m., except CAGR)	5,933	6,473	7,203	7,614	8,553	9,287	9.38
Total sales revenue of commodity properties (RMB billion, except CAGR)	7,629	8,728	11,763	13,370	14,961	15,973	15.93
Total sales revenue of residential properties (RMB billion, except CAGR)	6,241	7,277	9,906	11,024	12,637	13,944	17.44

Source: National Bureau of Statistics of China

PRC REGULATION

The following discussion summarises the principal laws, regulations, policies and administrative directives to which the Group is subject.

THE PRC LEGAL SYSTEM

The PRC legal system is based on the PRC Constitution and is made up of written laws, regulations, directives and local laws, laws of Special Administrative Regions and laws resulting from international treaties entered into by the PRC government. Court verdicts do not constitute binding precedents. However, they are used for the purposes of judicial reference and guidance.

The National People's Congress of the PRC, or NPC, and the Standing Committee of the NPC are empowered by the PRC Constitution to exercise the legislative power of the State. The NPC has the power to amend the PRC Constitution and enact and amend basic laws governing State agencies and civil and criminal matters. The Standing Committee of the NPC is empowered to enact and amend all laws except for the laws that are required to be enacted and amended by the NPC.

The State Council is the highest organ of the state administration and has the power to enact administrative rules and regulations. The ministries and commissions under the State Council are also vested with the power to issue orders, directives and regulations within the jurisdiction of their respective departments. All administrative rules, regulations, directives and orders promulgated by the State Council and its ministries and commissions must be consistent with the PRC Constitution and the national laws enacted by the NPC. In the event that a conflict arises, the Standing Committee of the NPC has the power to annul administrative rules, regulations, directives and orders.

At the regional level, the provincial and municipal congresses and their respective standing committees may enact local rules and regulations and the people's governments may promulgate administrative rules and directives applicable to their own administrative areas. These local laws and regulations must be consistent with the PRC Constitution, the national laws and the administrative rules and regulations promulgated by the State Council.

The State Council, provincial and municipal governments may also enact or issue rules, regulations or directives in new areas at the law for experimental purposes. After gaining sufficient experience with experimental measures, the State Council may submit legislative proposals to be considered by the NPC or the Standing Committee of the NPC for enactment at the national level.

The PRC Constitution vests the power to interpret laws in the Standing Committee of the NPC. According to the Decision of the Standing Committee of the NPC Regarding the Strengthening of Interpretation of Laws passed in June 1981, the Supreme People's Court, in addition to its power to give general interpretation on the application of laws in judicial proceedings, also has the power to interpret specific cases. The State Council and its ministries and commissions are also vested with the power to interpret rules and regulations that they have promulgated. At the regional level, the power to interpret regional laws is vested in the regional legislative and administrative bodies which promulgate such laws.

THE PRC JUDICIAL SYSTEM

Under the PRC Constitution and the Law of Organisation of the People's Courts, the judicial system is made up of the Supreme People's Court, the local courts, military courts and other special courts. The local courts are comprised of the basic courts, the intermediate courts and the higher courts. The basic courts are organised into civil, criminal, economic and administrative divisions. The intermediate courts are organised into divisions similar to those of the basic courts, and are further organised into other special divisions, such as the intellectual property division. The higher level courts supervise the basic and intermediate courts. The people's procuratorates also have the right to exercise

legal supervision over the civil proceedings of courts of the same level and lower levels. The Supreme People's Court is the highest judicial body in China. It supervises the administration of justice by all other courts.

The courts employ a two-tier appellate system. A party may appeal against a judgment or order of a local court to the court at the next highest level. Second judgments or orders given at the same level and at the next highest level are final. First judgments or orders of the Supreme People's Court are also final. If, however, the Supreme People's Court or a court at a higher level finds an error in a judgment which has been given in any court at a lower level, or the presiding judge of a court finds an error in a judgment which has been given in the court over which he presides, the case may then be retried according to the judicial supervision procedures.

The Civil Procedure Law of the PRC (《中華人民共和國民事訴訟法》) adopted in April 1991 and recently amended in July 2017 sets forth the criteria for instituting a civil action, the jurisdiction of the courts, the procedures to be followed for conducting a civil action and the procedures for enforcement of a civil judgment or order. All parties to a civil action conducted within the PRC must comply with the Civil Procedure Law. Generally, a civil case is initially heard by a local court of the municipality or province in which the defendant resides. The parties to a contract may, by express agreement, select a jurisdiction where civil actions may be brought, provided that the jurisdiction is either the plaintiff's or the defendant's place of residence, the place of execution or implementation of the contract or the object of the action where dispute actually relates. However, such selection cannot violate the stipulations of grade jurisdiction and exclusive jurisdiction in any case.

A foreign individual or enterprise generally has the same litigation rights and obligations as a citizen or legal person of the PRC. If a foreign country's judicial system limits the litigation rights of PRC citizens and enterprises, the PRC courts may apply the same limitations to the citizens and enterprises of that foreign country within the PRC. If any party to a civil action refuses to comply with a judgment or order made by a court or an award granted by an arbitration panel in the PRC, the aggrieved party may apply to the court to request for enforcement of the judgment, order or award. There are time limits imposed on the right to apply for such enforcement. If at least one of the parties to the dispute is an individual, the time limit is one year. If both parties to the dispute are legal persons or other institutions, the time limit is six months. If a person fails to satisfy a judgment made by the court within the stipulated time, the court will, upon application by either party, mandatorily enforce the judgment.

A party seeking to enforce a judgment or order of a court against a party who is not located within the PRC and does not own any property in the PRC may apply to a foreign court with proper jurisdiction for recognition and enforcement of the judgment or order. A foreign judgment or ruling may also be recognised and enforced by the court according to the PRC enforcement procedures if the PRC has entered into, or acceded to, an international treaty with the relevant foreign country, which provides for such recognition and enforcement, or if the judgment or ruling satisfies the court's examination according to the principal of reciprocity, unless the court finds that the recognition or enforcement of such judgment or ruling will result in a violation of the basic legal principles of the PRC, its sovereignty or security, or for reasons of social and public interest.

REAL ESTATE REGULATION

Establishment of a Real Estate Development Enterprise

According to the PRC Law on Administration of Urban Real Estate (《中華人民共和國城市房地產管理法》), promulgated by Standing Committee of the National People's Congress, effective in January 1995, amended in August 2007, August 2009 and August 2019, a real estate developer is defined as an enterprise that engages in the development and operation of real estate for the purpose of making profits. Under the Regulations on Administration of Development of Urban Real Estate (《城市房地產開發經營管理條例》), promulgated by the State Council in July 1998, as amended in January 2011, March 2019,

March 2020 and November 2020, an enterprise that is to engage in development of real estate must satisfy the following requirements, in addition to other enterprise establishment conditions provided in relevant laws and administrative regulations:

- its registered capital must be RMB1 million or more; and
- it must have four or more full-time professional real estate/construction technicians and two or more full-time accounting officers, each of whom must hold the relevant qualification certificate.

The local government of a province, autonomous region or municipality directly under the PRC central government may, based on local circumstances, impose more stringent requirements on the registered capital and the professional personnel of a real estate developer.

To establish a real estate development enterprise, the developer must apply for registration with the administration for industry and commerce. The developer must also report its establishment to the real estate development authority in the location of its registration, within 30 days of the receipt of its business license. Where a foreign-invested enterprise is to be established to engage in the development and operation of real estate, it must also comply with the relevant requirements under the PRC laws and administrative regulations regarding foreign-invested enterprises and apply for approvals relating to foreign investments in China.

Pursuant to the Notice on Adjusting the Percentage of Capital Fund for Investment Projects in Fixed Assets (《國務院關於調整固定資產投資項目資本比例的通知》) issued by the State Council in May 2009, the minimum portion of the capital funding for ordinary commodity housing projects and affordable housing projects has been reduced to 20 per cent., while that for other real estate projects has been decreased to 30 per cent.

In July 2006, the Ministry of Construction, the Ministry of Commerce (the “MOFCOM”), the NDRC, the PBOC, the State Administration of Industry and Commerce (“SAIC”) and SAFE jointly issued an Opinion on Standardising the Admittance and Administration of Foreign Capital in the Real Estate Market (《關於規範房地產市場外資准入和管理的意見》), as amended in August 2015 by Notice of the MOHURD, the MOFCOM, the NDRC and Other Departments on Adjusting the Policies on the Market Access and Administration of Foreign Investment in the Real Estate Market, which provides, among other things, that an overseas entity or individual investing in real estate in China other than for self-use must apply for the establishment of a FIREE in accordance with applicable PRC laws and may only conduct operations within the authorised business scope. The joint opinion attempts to impose additional restrictions on the establishment and operation of FIREE by regulating the amount of registered capital as a percentage of total investment in certain circumstances, limiting the validity of approval certificates and business licenses to one year, restricting the ability to transfer equity interests of a FIREE or its projects and prohibiting the borrowing of money from domestic and foreign lenders where the land use rights are not obtained.

In May 2007, the MOFCOM and SAFE issued the Circular on Strengthening and Regulating the Examination and Approval and Supervision of Foreign Direct Investment in the Real Estate Sector (《商務部、國家外匯管理局關於進一步加強規範外商直接投資房地產業審批和監督的通知》) (“Circular 50”), as amended in October 2015 by Decision of the Ministry of Commerce on Amending Some Rules and Regulatory Documents. Under Circular 50, prior to applying for establishment of real estate companies, foreign investors must first obtain land use rights and building ownership or must have entered into pre-sale or pre-grant agreements with respect to the land use rights or building ownership. If foreign-invested enterprises in China engage in real estate development or operations or if FIREEs in China engage in new real estate project developments, they must first apply to the relevant PRC governmental authorities to expand their scope of business or scale of operations in accordance with the PRC laws and regulations related to foreign investments. In addition, the local PRC governmental authorities must file with the MOFCOM for record their approvals of establishment of FIREEs, and must

exercise due control over foreign investments in high-end properties. Foreign exchange authorities may not allow capital-account foreign exchange sales and settlements by FIREEs that have been established in contravention of these requirements.

Qualifications of a Real Estate Developer

Under the Provisions on Administration of Qualifications of Real Estate Developers (《房地產開發企業資質管理規定》) (the “Provisions on Administration of Qualifications”), implemented on 29 March 2000 and amended on 4 May 2015, a real estate developer must apply for registration of its qualifications according to such Provisions on Administration of Qualifications. An enterprise may not engage in property development without a qualification classification certificate for real estate development. The Ministry of Construction oversees the qualifications of real estate developers with national operations, and local real estate development authorities at or above the county level oversee the qualifications of local real estate developers.

In accordance with the Provisions on Administration of Qualifications, real estate developers are classified into four classes, including:

- Class 1 qualifications are subject to preliminary examination by the construction authorities at the provincial level and final approval of the Ministry of Construction. A class 1 real estate developer is not restricted as to the scale of its real estate projects and may undertake a real estate development anywhere in the country.
- Class 2 or lower qualifications are regulated by the construction authorities at the provincial level subject to delegation to lower level government agencies. A real estate developer of class 2 or lower may undertake a project with a GFA of less than 250,000 sq.m., subject to confirmation by the construction authorities at the provincial level.

Under the relevant PRC laws and regulations, the real estate development authorities will examine applications for registration of qualifications submitted by real estate developers by considering the professional personnel in their employ, financial condition and operating results. A real estate developer that passes the qualification examination will be issued a qualification certificate of the relevant class by the qualification examination authority. A developer of any qualification classification may only engage in the development and sale of real estate within its approved scope of business and may not engage in business which is limited to another classification.

For a newly established real estate developer, the real estate development authority will issue a provisional qualification certificate, if it is an eligible developer, within 30 days of receipt by the authority of the application. The provisional qualification certificate will be effective for one year from its date of issue and may be extended for not more than two additional years with the approval of the real estate development authority. The real estate developer must apply for qualification classification to the real estate development authority within one month before expiration of the provisional qualification certificate.

Development of a Real Estate Project

Under the Interim Regulations of the People’s Republic of China on Grant and Assignment of the Use Right of state-owned Urban Land (《城鎮國有土地使用權出讓和轉讓暫行條例》), promulgated by the State Council in May 1990 and amended in December 2020, China adopted a system to grant and assign the right to use state-owned land. A land user must pay a land premium to the state as consideration for the grant of the right to use a land site within a specified period of time, and the land user may assign, lease out, mortgage or otherwise commercially exploit the land use rights within the term of use. Under the relevant PRC laws and regulations, the land administration authority at the city or county level may enter into a land grant contract with the land user to provide for the grant of land use rights. The land user must pay the land premium as provided by the land use rights grant contract. After payment in full of the land premium, the land user may register with the land administration

authority and obtain a land use rights certificate which evidences the acquisition of land use rights. The relevant PRC laws and regulations provide that land use rights for a site intended for real estate development must be obtained through grant except for land use rights which may be obtained through premium-free allocation by the PRC government pursuant to the PRC laws or the stipulations of the State Council. Government-allocated land is not allowed to be transferred unless the transfer is approved by the relevant PRC government authorities and the land premium as determined by the relevant PRC government authorities has been paid.

When carrying out the feasibility study for a construction project, the construction or the developer entity must make a preliminary application for construction on the relevant site to the relevant land administration authority in accordance with the Measures for Administration of Examination and Approval for Construction Sites (《建設用地審查報批管理辦法》), promulgated by the Ministry of Land and Resources in March 1999, as amended in November 2010 and November 2016, and the Measures for Administration of Preliminary Examination of Construction Project Sites, promulgated by the Ministry of Land and Resources (《建設項目用地預審管理辦法》) in July 2001, as amended in November 2004, November 2008 and November 2016. After receiving the preliminary application, the land administration authority will carry out preliminary examinations of various aspects of the construction project in compliance with the overall zoning plans and land supply policy of the government, and will issue a preliminary approval in respect of the project site if its examination proves satisfactory. The land administration authority at the relevant city or county will sign a land use rights grant contract with the land user and issue an approval for the construction site to the construction entity or the developer.

Under the Measures for Control and Administration of Grant and Assignment of Right to Use Urban state-owned Land (《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 in December 1992 and amended in January 2011, the grantee under a land grant contract (i.e. a real estate developer) must further apply for a permit for construction site planning from the relevant municipal planning authority. After obtaining such permit, a real estate developer will organise the necessary planning and design work. Planning and design proposals in respect of a real estate development project are again subject to relevant reporting and approval procedures required under the Law of the People's Republic of China on Urban and Rural Planning (《中華人民共和國城鄉規劃法》), promulgated by the National People's Congress in October 2007 and amended in April 2015 and April 2019, local statutes on municipal planning. Upon approval by the authorities, a permit for construction works planning will be issued by the relevant municipal planning authority.

In accordance with the Regulations on the Expropriation of Buildings on State-owned Land and Compensation (《國有土地上房屋徵收與補償條例》), promulgated by the State Council in January 2011, the relevant governmental authorities responsible for expropriation of buildings shall propose an expropriation and compensation plan to the county- or city-level government. The county- or city-level government shall organise the relevant governmental authorities to discuss the expropriation and compensation plan and publish the proposal for public opinions, of which the publicity period shall not be less than 30 days. Then the county- or city-level government shall revise the proposal taking into account the public opinions and publish the final plan in a timely manner, based on which the owners of the buildings shall be compensated.

When the site has been properly prepared and is ready for the commencement of construction works, the developer must apply for a permit for commencement of works from the construction authorities at or above the county level according to the Measures for Administration of Granting Permission for Commencement of Construction Projects (《建築工程施工許可管理辦法》) promulgated by the MOHURD in June 2014, as amended in September 2018. According to the Notice Regarding Strengthening and Regulating the Administration of Newly-commenced Projects (《國務院辦公廳關於加強和規範新開工項目管理的通知》), issued by the General Office of the State Council on 17 November 2007, before commencement of construction, all kinds of projects shall fulfil certain conditions, including, among other things, compliance with national industrial policy, development plan, land

supply policy and market access standard, completion of all approval and filing procedures, compliance with zoning plans in terms of site and planning, completion of proper land use procedures and obtaining proper environmental valuation approvals and construction permits or reports.

The development of a real estate project must comply with various laws and legal requirements on construction quality, safety standards and technical guidance on architecture, design and construction work, as well as provisions of the relevant contracts. On 30 January 2000, the State Council promulgated and implemented the Regulation on the Quality Management of Construction Projects (《建設工程質量管理條例》), as amended in October 2017 and April 2019, which sets the respective quality responsibilities and liabilities for developers, construction companies, reconnaissance companies, design companies and construction supervision companies. In August 2008, the State Council issued the Regulations on Energy Efficiency for Civil Buildings (《民用建築節能條例》) which reduces the energy consumption of civil buildings and improves the efficiency of energy utilisation. According to this regulation, the design and construction of new buildings must meet the mandatory criteria on energy efficiency for buildings, and failure to meet such criteria will result neither in commencement of construction nor acceptance upon completion. Among other things, this regulation sets forth additional requirements for property developers in the sale of commodity buildings in this respect. After completion of construction works for a project, the real estate developer must organise an acceptance examination by relevant government authorities and experts according to the Provisions on Inspection 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 by the Ministry of Housing and Urban-Rural Development in December 2013, and file with the construction authority at or above the county level where the project is located within 15 days after the construction is qualified for the acceptance examination according to the Provisional Measures for Reporting Details Regarding Acceptance Examination Upon Completion of Buildings and Municipal Infrastructure (《房屋建築工程和市政基礎設施工程竣工驗收備案管理辦法》), promulgated by the Ministry of Construction in April 2000, as amended in October 2009 by the MOHURD. A real estate development project may not be delivered until and unless it has satisfactorily passed the necessary acceptance examination. Where a property project is developed in phases, an acceptance examination may be carried out for each phase upon completion.

In China, there are two registers of property interests. Land registration is effected by the issue of land use right certificates by the relevant authorities to the land users. Land use rights may be assigned, mortgaged or leased.

The building registration is effected by the issue of property ownership certificates to the property owners. Property or building ownership rights are only related to the building or improvements erected on the land. Under the PRC laws and regulations, all land use rights and property ownership rights that are duly registered are protected by law. Under the Interim Regulations on Real Estate Registration promulgated by the State Council in November 2014, came into effect on 1 March 2015 and amended in March 2019, the land use rights registration and property ownership rights registration have been consolidated, but the real estate ownership certificates issued and real estate registers prepared prior to the implementation of the regulations shall remain in force.

Land for Property Development

In April 1988, the National People's Congress amended the PRC Constitution to permit the transfer of land use rights in accordance with the laws and regulations. In December 1988, the National People's Congress amended the Land Administration Law (《中華人民共和國土地管理法》) to permit the transfer of land use rights in accordance with the laws and regulations.

On 3 January 2008, the State Council issued the Notice on Promoting Economisation of Land Use (《國務院關於促進節約集約用地的通知》), which emphasised the strict implementation of the policy for handling idle land. According to this notice, land which has been idle for two years and which should be repossessed pursuant to the laws shall be repossessed by the government at no consideration for reuse; for land which does not meet all the legal requirements for repossession, their use shall be altered, or the

idle land shall be exchanged for another piece of land of equal value, or it shall be temporarily used for alternative purposes or be treated as government land reserve temporarily pending further consideration on its use. For land which has been idle for one full year but less than two years, an idle land fee shall be charged at 20 per cent. of the value of the land grant or allocation premium.

Under current PRC laws and regulations on land administration, land for property development may be obtained only by grant except for land use rights obtained through allocation. Under the Regulations on the Grant of State-owned Construction Land Use Rights Through Public Tender, Auction and Listing-for-Sale (《招標拍賣掛牌出讓國有土地使用權規定》) promulgated by the Ministry of Land and Resources, promulgated in May 2002 and amended in September 2007, land for commercial use, tourism, entertainment and commodity housing development must be granted by public tender, auction or listing-for-sale. Under these regulations, the relevant land administration authority at city or county level, or the grantor, is responsible for preparing the public tender or auction documents and must make an announcement 20 days prior to the day of public tender or auction with respect to the particulars of the land parcel and the time and venue of the public tender or auction. The grantor must also verify the qualification of the bidding and auction applicants, accept an open public auction to determine the winning tender or hold an auction to ascertain a winning bidder. The grantor and the winning tender or bidder will then enter into a confirmation followed by the execution of a contract for assignment of state-owned land use rights. Over the years, the Ministry of Land and Resources has promulgated further rules and regulations to define the various circumstances under which the state-owned land use rights may be granted by means of public tender, auction and listing-for-sale or by agreement.

Under the Regulation on Grant of State-owned Land Use Rights by Agreements (《協議出讓國有土地使用權規定》), promulgated by the Ministry of Land and Resources on 11 June 2003, except for the project that must be granted through tender, auction and listing as required by the relevant laws and regulations, land use right may be granted through transfer by agreement and the land premium for the transfer by agreement of the state-owned land use right shall not be lower than the benchmark land price.

The Urgent Notice on Further Governing and Rectifying Land Market and Strengthening Administration of Land (《國務院辦公廳關於深入開展土地市場治理整頓嚴格土地管理的緊急通知》) (Guo Ban Fa Ming Dian (2004) No. 20), issued by the General Office of the State Council on 29 April 2004, restated the principle of strict administration of the approval process for the construction land and protection of the basic farmlands.

The Notice on Issues Relating to Strengthening the Land Control (《國務院關於加強土地調控有關問題的通知》) (Guo Fa (2006) No. 31), promulgated by the State Council on 31 August 2006, sets forth the administration of the receipt and disbursement of the land premium, modifies the tax policies relating to the construction land, and builds up the system of publicity for the standards of the lowest price with respect to the granted state-owned land use right.

In September 2007, the Ministry of Land and Resources further promulgated the Regulations on the Grant of State-owned Construction Land Use Rights Through Public Tender, Auction and Listing-for-sale (《招標拍賣掛牌出讓國有建設用地使用權規定》) (Order of the Ministry of Land and Resources No. 39) to require that land for industrial use, except land for mining, must also be granted by public tender, auction and listing-for-sale. Only after the grantee has paid the land premium in full under the land grant contract can the grantee apply for the land registration and obtain the land use right certificates. Furthermore, land use rights certificates may not be issued in proportion to the land premium paid under the land grant contract.

In October 2007, the Standing Committee of National People's Congress promulgated the PRC City and Countryside Planning Law (《中華人民共和國城鄉規劃法》), as amended in April 2015 and April 2019, pursuant to which a construction land planning permit must be obtained from the relevant urban and rural planning government authorities for building any structure, fixture, road, pipeline or other engineering project within an urban or rural planning area.

In November 2009, the Ministry of Finance, the Ministry of Land and Resources, the PBOC, the PRC Ministry of Supervision and the PRC National Audit Office jointly promulgated the Notice on Further Enhancing the Revenue and Expenditure Control over Land Grant (《關於進一步加強土地出讓收支管理的通知》)(Cai Zong (2009) No. 74). The notice raises the minimum down payment for land premiums to 50 per cent. and requires the land premium to be fully paid within one year after the signing of a land grant contract, subject to limited exceptions.

In December 2010, the Ministry of Land and Resources promulgated the Notice on Strict Implementation of Policies Regarding Regulation and Control of Real Property Land and Promotion of the Healthy Development of Land Markets (關於嚴格落實房地產用地調控政策促進土地市場健康發展有關問題的通知), which provides, among other things, that: (i) cities and counties that have less than 70 per cent. of their land supply designated for affordable housing, housing for redevelopment of shanty towns or small/medium residential units must not provide land for large-sized and high-end housing before the end of 2011; (ii) land and resource authorities in local cities and counties will report to the Ministry of Land and Resources and provincial land and resource authorities, respectively, regarding land with a premium rate of more than 50 per cent.; and (iii) land designated for affordable housing which is used for property development against relevant policies or which involve illegal income will be confiscated and the relevant land use rights will be withdrawn. Moreover, the notice stipulated that changing the plot ratio of land without approval is strictly prohibited.

In May 2012, the Ministry of Land and Resources and the National Development and Reform Commission issued a Circular on the Distribution of the Catalogue for Restricted Land Use Projects (2012 Version) (《限制用地項目目錄(2012年本)》) and the Catalogue for Prohibited Land Use Projects (2012 Version) (《禁止用地項目目錄(2012年本)》). In this circular, the Ministry of Land and Resources and the National Development and Reform Commission set forth a ceiling for the land granted by local governments for development of commodity housing as follows: seven hectares for small cities and towns, 14 hectares for medium-sized cities and 20 hectares for large cities.

On 22 May 2012, the Ministry of Land and Resources revised the Measures on Disposal of Idle Land (《閒置土地處置辦法》), which were originally published in April 1999. This amendment became effective on 1 July 2012 and includes the following significant changes or new provisions:

- Emphasising the key purposes of regulating idle land. The current version of Measures on Disposal of Idle Land re-emphasise the importance of suppressing intentional holdings of land for the purpose of resale. For example, it provides that if the real estate developer intentionally delays the commencement of construction and development for the purpose of holding the land for resale with bad faith, and before such case is reviewed and disposed of by the government, the government should neither accept new applications for land use by the same holder of land use rights, nor register the status of transfer, lease, mortgage or information change of the land considered to be idle until sanctions have been imposed by relevant agencies;
- Readdressing the disposal method of idle land. Consistent with the April 1999 version, the amended Measures on Disposal of Idle Land once again addressed the method of disposal of idle land. If the real estate developer fails to commence the construction and development of the land for one year, the government should issue the Notice on Imposition of Land Idleness Penalty Fees to the holder of land use right. The penalty fees should be 20 per cent. of the price that the holder paid for obtaining the land use right. If the holder of land use rights

failed to commence the construction and development of the land for two years, the government should issue the Notice on Decision of Revocation of Land Use Right to the holder, thereby revoking the holder's right to use land for free. However, compared with the 1999 version, the amended Measures on Disposal of Idle Land specify the procedure for determining and disposing of idle land, including:

1. Once relevant governmental authority suspects that a tract of land has become idle, it should initiate investigation within 30 days therefrom and issue a "notice on investigation of idle land" to the holder of land use right. The holder of land use right should submit explanatory materials about the development condition and reason for land idleness to the government within 30 days upon the receipt of such notice;
 2. After investigation, if the government decides that the investigated land has become idle, it should issue a "notice on confirmation of idle land" to the investigated holder of land use rights, which will specify the facts and grounds for determining that the land concerned has become idle. Relevant information of the idle land will also be published on the governmental authority's official website after issuance of such notice;
 3. If the idleness of land was caused by the real estate developer rather than the government, the governmental authority is entitled to impose penalty fees for the idleness or even revoke the land use right. However, before such penalty decisions are made, the government should notify the holder of the land use rights that the holder has the right to request a hearing; and
 4. Once the government decides to impose penalty fees for land idleness, it should issue a "notice on imposition of land idleness penalty fees" to the holder of the land use rights, and the owner should pay the penalty fees within 30 days upon the receipt of the notice. If the government decides to revoke the land use right, the government should issue a "notice on decision of revocation of land use rights" to the holder, and the holder should cancel the registration of its land use rights from government's record within 30 days upon its receipt of such notice; and
- Specifying the circumstances where the delay of commencement of construction and development was caused by the government. If the delay of commencement of construction and development was caused by the government, the real estate developer will not be directly subject to penalties for delays caused by the developer itself. The amended Measures on Disposal of Idle Land specify the following circumstances where the delay of commencement of construction and development is considered to be caused by the government:
 1. Where the land fails to be delivered to the holder of the land use rights in accordance with the time limit and conditions as prescribed in the land transfer contract or the land allocation decision, with the result that the conditions for commencing the construction and development of the project are not met;
 2. Where relevant land-use planning is modified, with the result that the owner of the land use rights cannot commence construction and development;
 3. Where the land-use planning and construction conditions need to be modified in light of new policies issued by the government;
 4. Where the construction and development of the land cannot be commenced due to complaints lodged by the general public in connection with the land;
 5. Where the construction and development of the land cannot be commenced due to military control or protection of historic and cultural relics; and

6. Where other acts of any government or governmental agency cause the delay.

On 22 May 2014, the Ministry of Land and Resources of the PRC promulgated the Regulations on the Economical and Intensive Use of Land (《節約集約利用土地規定》), which was amended on 24 July 2019 and became effective on the same date and established the most stringent system of arable land protection and economical and intensive use of land.

The MOHURD and the Ministry of Land and Resources jointly issued the “Circular of Relevant Work on Strengthening the Recent Administration and Control of Housing and Land Supply”(《關於加強近期住房及用地供應管理和調控有關工作的通知》) dated 1 April 2017 which provides, among others, that cities and counties that have more than one million inhabitants should make three-year (2017-2019) and a five-year (2017-2021) plans for housing land supply, and make the plans public by the end of June 2017. The circular further requires that local governments should adjust the size, structure and timing of land supply for residential housing in due course based on the period of depleting commodity residential housing inventory. For example, if the above period is longer than 36 months, no more land is to be supplied; if the said period is over 18 months but shorter than 36 months, land supply shall be reduced in size; if the said period is longer than six months but shorter than 12 months, more land shall be provided; however, if the current inventory could be sold in less than six months, land supply shall increase significantly within a short amount of time. In addition, the circular stipulates that local authorities should adopt the examination system of land acquisition capital to ensure that the property developers use internal funds to acquire lands and that, if the land bid capital originate from illegitimate sources, the property developers shall be disqualified and prohibited from bidding for land for a designated time.

Sale of Commodity Houses

Under the Measures for Administration of Sale of Commodity Houses (《商品房銷售管理辦法》) (Order of the Ministry of Construction No. 88), promulgated by the Ministry of Construction in April 2001, sale of commodity houses can include both sales before the completion of the properties, or pre-sale, and sales after the completion of the properties.

Any pre-sale of commodity buildings must be conducted in accordance with the Measures for Administration of Pre-sale of Commodity Buildings in Urban Area (《城市商品房預售管理辦法》) promulgated by the Ministry of Construction in November 1994, as amended in August 2001 and July 2004, and other related regulations. The pre-sale regulations provide that any pre-sale of commodity properties is subject to specified procedures. According to the current PRC laws and regulations, a pre-sale permit must be in place before a commodity building may be put to pre-sale. Specifically, a developer intending to sell a commodity building before its completion must apply to the real estate development authorities for a pre-sale permit. A commodity building may be sold before completion only if:

- the purchase price has been paid in full for the grant of the land use rights involved and a land use rights certificate has been properly obtained;
- a construction project planning permit and a construction commencement permit have been properly obtained;
- funds invested in the development of the commodity buildings for pre-sale represent 25 per cent. or more of the total investment in the project and the construction progress as well as the completion and delivery dates have been properly ascertained; and
- a pre-sale permit has been obtained.

The pre-sale proceeds of commodity buildings must be used to develop the relevant project so presold. Commodity buildings may be put to post-completion sale and delivery after they have passed the acceptance examination and otherwise satisfy the various preconditions for such sale. Before the post-completion sale of a commodity building, the developer must, among other things, submit a real estate development project manual and other documents relating to the project evidencing the satisfaction of the preconditions for post-completion sale to the real estate development authority for its record.

On 16 March 2011, the National Development and Reform Commission promulgated the Regulation on Price of Commodity Property (《商品房銷售明碼標價規定》), which became effective on 1 May 2011. According to the regulation, property developers are required to make public the sale price of each apartment of commodity properties for sale or pre-sale and the number of apartments available for sale or pre-sale within a certain time period. Property developers are also required to state factors that would affect housing prices and relative charges before the property transaction, such as a commission fee and property management fee. No additional charge beyond what is stated in the price tag or made public by the property developers is permitted.

Transfer of Real Estate

According to the PRC laws and the Provisions on Administration of Transfer of Urban Real Estate (《城市房地產轉讓管理規定》), promulgated by the Ministry of Construction in August 1995, as amended in August 2001, a real estate owner may sell, gift or otherwise legally transfer the property to another natural person or legal entity. When transferring a building, the ownership of the building and the land use rights to the site on which the building is situated are transferred together. The parties to a transfer must enter into a written real estate transfer contract and register the transfer with the real estate administration authority having jurisdiction over the location of the real estate within 90 days of the execution of the transfer contract.

Where the land use rights are originally obtained by grant, the real property may only be transferred on the condition that:

- the land premium has been paid in full for the granted land use rights as required by the land grant contract and a land use rights certificate has been properly obtained; and
- in the case of a project in which buildings are being developed, development representing more than 25 per cent. of the total investment has been completed; or
- in case of a whole land lot development project, construction works have been carried out as planned, water supply, sewerage, electricity supply, heat supply, access roads, telecommunications and other infrastructure or utilities have been made available, and the site has been levelled and made ready for industrial or other construction purposes.

If the land use rights are originally obtained by grant, the term of the land use rights after transfer of the real estate will be the remaining portion of the original term in the land grant contract. In the event that the assignee intends to change the use of the land provided in the land grant contract, consent must first be obtained from the original land use rights grantor and the planning administration authority at the relevant city or county and an agreement to amend the land grant contract or a new land grant contract must be signed in order to, *inter alia*, change the use of the land and adjust the land premium accordingly.

If the land use rights are originally obtained by allocation, such allocated land use right may be changed to granted land use rights upon approval by the government vested with the necessary approval power as required by the State Council. After the government authorities vested with the necessary approval power approve such change, the grantee must complete the formalities for the grant of the land

use rights and pay the land premium according to the relevant statutes. Assignment of land for commercial use, tourism, entertainment and commodity housing development must be conducted through public tender, auction or listing-for-sale under the current PRC laws and regulations.

Leases of Buildings

Under the PRC laws and the Measures for Administration of Leases of Commodity House, promulgated by the Ministry of Housing and Urban-rural Construction (住房和城鄉建設部令第6號《商品房屋租賃管理辦法》) in December 2010 that became effective in February 2011, parties to a lease of a building must enter into a lease contract in writing. China has adopted a system to register the leases of real properties. When a lease contract is signed, amended or terminated, the parties must register the details with the real estate administration authority at the city or county in which the building is situated.

Mortgages of Real Estate

Under the PRC Urban Real Estate Administration Law (《中華人民共和國城市房地產管理法》), promulgated by the Standing Committee of the National People's Congress in July 1994, as amended in August 2007, August 2009 and August 2019, and the Measures for Administration of Mortgages of Urban Real Estate (建設部令第98號《城市房地產抵押管理辦法》), promulgated by the Ministry of Construction in May 1997, as amended in August 2001, when mortgage is created on the ownership of a building legally obtained, such mortgage must be simultaneously created on the land use rights of the land on which the building is situated. The mortgagor and the mortgagee must sign a mortgage contract in writing. China has adopted a system to register mortgages of real estate. After a real estate mortgage contract has been signed, the parties to the mortgage must register the mortgage with the real estate administration authority at the location where the real estate is situated. A real estate mortgage contract will become effective on the date of registration of the mortgage. If a mortgage is created on the real estate in respect of which a property ownership certificate has been legally obtained, the registration authority will, when registering the mortgage, make an entry under "third party rights" on the original property ownership certificate and then issue a certificate of third party rights to the mortgagee. If a mortgage is created on the commodity building put to pre-sale or on works in progress, the registration authority will, when registering the mortgage, record the details on the mortgage contract. If construction of a real property is completed during the term of a mortgage, the parties involved will re-register the mortgage of the real property after issue of the certificates evidencing the rights and ownership to the real estate.

On 28 May 2020, the NPC approved the Civil Code of the People's Republic of China (《中華人民共和國民法典》)(the "**Civil Code**"), which came into effect on 1 January 2021 and replaced the Property Law of the PRC (《中華人民共和國物權法》) and several other basic civil laws such as the PRC Security Law (《中華人民共和國擔保法》), in the PRC, provides:

- where a building is mortgaged, the right to use land for construction occupied by such building shall be mortgaged together. Where the right to use land for construction is mortgaged, all buildings on such land shall be mortgaged together. In case a mortgagor fails to mortgage the properties according to the preceding paragraph, the properties that have not been mortgaged shall be regarded as having been mortgaged together;
- mortgages of buildings under construction shall be registered, and the mortgage right is established as of the date of such registration; and
- after the right to use land for construction is mortgaged, the newly-constructed buildings on the land shall not form part of the properties under mortgage. If the aforesaid right to use land for construction must be auctioned, the newly added housing property may be auctioned together with the mortgaged property, but the mortgagee does not receive first priority of payment for any amount derived from the auction of the newly-constructed buildings.

Pursuant to the Interim Regulations on Real Estate Registration (《不動產登記暫行條例》) issued by the Ministry of Land and Resources on 24 November 2014 and amended on 24 March 2019, registration refers to the registration of land-use rights of relevant land for public review. With respect to the mortgage of land use right, mortgagee and mortgagor shall apply for mortgage registration of the land use right by presenting the land rights certificate, the master debtor-creditor contract, the mortgage contract and other relevant certificates. If a parcel of land has been mortgaged more than once, the mortgage registration shall be made according to the sequence of applications for mortgage registration. If the conditions for mortgage registration are satisfied, the competent administrative department of land and resources shall record relevant items stipulated in the mortgage contract on the land register and the land use rights certificate and issue the certificate of other rights over land to the mortgagee. If the mortgage under registration application arrives at the maximum limit of mortgage, the entry of the guaranteed maximum amount of creditor's rights and the term of maximum mortgage and other items shall be noted down. The interim regulations also stipulate the cessation of illegal registration, and prohibition of legalising illegal land through land registration, and registrations will not be granted in cases involving unresolved land disputes, as well as cases where the application period exceed the current law stipulated.

According to the Circular on Further Strengthening the Management of Loans for Property Business (銀發[2003]121號《中國人民銀行關於進一步加強房地產信貸業務管理的通知》) issued in June 2003, all banks must comply with the following requirements before granting residential development loans, individual home mortgage loans and individual commercial property mortgage loans:

- Property development loans from banks may only be granted to real estate developers with development qualification and credit ratings in the higher categories. Such loans may be offered to residential projects with good market potential. While the borrowing enterprise's internal capital may not be less than 30 per cent. of the total investment required for the project, the project must have obtained the land use rights certificate, construction land planning permit, construction project planning permit and construction commencement permit.
- In respect of the grant of individual commercial use building mortgage loans, the mortgage ratio for commercial use building mortgage loans may not exceed 60 per cent. with a maximum loan period of 10 years and the subject commercial use building already completed.

The down payment requirement was subsequently increased to 30 per cent. of the property price for residential units with a unit floor area of 90 sq.m. or more in May 2006. Investors may refer to “– Measures on Stabilising Housing Price” below. The initial capital outlay requirement was subsequently increased to 35 per cent. by CBRC, in August 2004 pursuant to its Guidance on Risk Management of Property Loans Granted by Commercial Banks (銀監發[2004]57號《商業銀行房地產貸款風險管理指引》).

In a Circular on Facilitating the Continuously Healthy Development of Property Market (國發[2003]18號《國務院關於促進房地產市場持續健康發展的通知》), issued by the State Council in August 2003, a series of measures were adopted by the government to control the property market. They included, among others, strengthening the construction and management of low-cost affordable houses, increasing the supply of ordinary commodity houses and controlling the construction of high-end commodity houses. Besides, the government also staged a series of measures on the lending for residential development, including, among others, improving the loan evaluation and lending process, improving the guarantee mechanism of individual home loans and strengthening the monitoring over property loans. It is expected that the circular will have a positive effect on the development of the PRC property market in the long run by facilitating a continuously healthy growth of the property market in China.

In September 2007, the PBOC and CBRC promulgated a Circular on Strengthening the Management of Commercial Real-estate Credit Loans (銀發[2007]359號《中國人民銀行、中國銀行業監督管理委員會關於加強商業性房地產信貸管理的通知》) with a supplement issued in December 2007.

The circular aims to tighten the control over real-estate loans from commercial banks to prevent granting excessive credit. The measures include:

- for a first-time home owner, increasing the minimum amount of down payment to 30 per cent. of the purchase price of the underlying property if the underlying property has a unit floor area of 90 sq.m. or more and the purchaser is buying the property as his/her own residence;
- for a second-time home buyer, increasing (i) the minimum amount of down payment to 40 per cent. of the purchase price of the underlying property and (ii) the minimum mortgage loan;
- interest rate to 110 per cent. of the relevant the PBOC benchmark one-year bank lending interest rate. If a member of a family (including the buyer, his/her spouse and their children under 18) has financed the purchase of a residential unit, any member of the family that buys another residential unit with bank loans will be regarded as a second-time home buyer;
- for a commercial property buyer, (i) requiring banks not to finance any purchase of pre-sold properties, (ii) increasing the minimum amount of down payment to 50 per cent. of the purchase price of the underlying property, (iii) increasing the minimum mortgage loan interest rate to 110 per cent. of the relevant the PBOC benchmark one-year bank lending interest rate and (iv) limiting the terms of such bank loans to no more than 10 years, although the commercial banks are given certain flexibility based on its risk assessment;
- for a buyer of commercial/residential dual-purpose properties, increasing the minimum amount of down payment to 45 per cent. of the purchase price of the underlying property, with the other terms to be decided by reference to commercial properties; and
- prohibiting commercial banks from providing loans to real-estate developers who have been found by relevant government authorities to be hoarding land and properties.

In addition, commercial banks are also banned from providing loans to the projects that have less than 35 per cent. of capital funds (proprietary interests), or fail to obtain land use right certificates, construction land planning permits, construction project planning permits or construction commencement permits. Commercial banks are also prohibited from accepting commercial premises that have been vacant for more than three years as collateral for loans. In principle, real-estate development loans provided by commercial banks should only be used for the projects where the commercial banks are located. Commercial banks may not provide loans to property developers to finance the payment of land premium.

According to the Notice on Extending the Downward Range of the Interest Rate for Commercial Personal Home Loans and Supporting the Residents in First-time Purchase of Ordinary Residential Homes (銀發[2008]302號《中國人民銀行關於擴大商業性個人住房貸款利率下浮幅度等有關問題的通知》), issued by the PBOC on 22 October 2008, the minimum amount of down payment has been adjusted to 20 per cent. since 27 October 2008.

In May 2009, the State Council issued the Notice on Adjusting the Proportions of Capital for Fixed Asset Investment Projects (國發[2009]27號《國務院關於調整固定資產投資項目資本金比例的通知》), setting the minimum proportion of capital funds for affordable housing projects and ordinary commodity residential property projects at 20 per cent., and the minimum proportion of capital funds for other property development projects at 30 per cent.

In January 2010, the State Council issued the Circular on Promoting the Stable and Sound Development of the Real Estate Market (國辦發[2010]4號《國務院辦公廳關於促進房地產市場平穩健康發展的通知》), which, among other things, provides that homeowners with outstanding mortgage loans who intend to buy additional housing properties for themselves, their spouses or dependent children are required to pay a down payment of no less than 40 per cent. of the purchase price and the applicable interest rate shall be set strictly based upon the associated risk level.

In April 2010, the State Council issued the Circular on Restraining the Housing Price from Increasing Rapidly for Some Cities (國發[2010]10號《國務院關於堅決遏制部分城市房價過快上漲的通知》), which sets out rules designed to curb the rapid increase in the prices of housing in certain cities, including:

- The differentiation of mortgage financing granted to residential property buyers:
- a household (including the borrower, his or her spouse and any minor children) that borrows a mortgage loan for the purchase of its first residential property, of which the building area is more than 90 sq.m., must make a down payment of not less than 30 per cent. of the purchase price;
- a household that borrows a mortgage loan for the purchase of its second residential property must make a down payment of not less than 50 per cent. of the purchase price and pay a mortgage rate which is not lower than 110 per cent. of the benchmark interest rate;
- the down payment proportion and mortgage rate applicable to the purchase of a household's third residential property or beyond shall be significantly increased at the sole discretion of the commercial banks according to their risk controlling principles.
- In regions where commodity housing prices are too high, have increased too rapidly or where commodity housing is in short supply, commercial banks may suspend the grant of mortgage loans to any third-time (or beyond) home buyers if they deem it appropriate according to the risks involved, and may suspend the grant of mortgage loans to any non-local home buyers who are unable to provide proof of payment of local taxes or social security contributions covering a period of one year or more. Local governments may, based on the circumstances, impose temporary restrictions during a certain period of time on the number of properties that can be purchased.

In January 2011, the General Office of the State Council issued the Notice on Further Improving the Regulation of the Real Estate Market (國辦發[2011]1號《國務院辦公廳關於進一步做好房地產市場調控工作有關問題的通知》), under which a household that borrows a mortgage loan for the purchase of a second residential property must make a down payment of not less than 60 per cent of the purchase price and pay a mortgage rate which is not lower than 110 per cent. of the benchmark interest rate.

REAL ESTATE MANAGEMENT

Under the Measures for the Administration of Qualifications of Property Service Enterprises (建設部令第77號《房地產開發企業資質管理規定》), promulgated by the Ministry of Construction in March 2000, as amended in May 2015, a property service enterprise must apply for assessment of its qualification by the relevant qualification approval authority. An enterprise which passes such a qualification assessment will be issued a qualification certificate. No enterprise may engage in property management without undertaking a qualification assessment conducted by the relevant authority and obtaining a qualification certificate.

REAL ESTATE REGISTRATION

On 24 November 2014, The State Council promulgated a Circular on Interim Regulations on Real Estate Registration (《不動產登記暫行條例》), which was amended in March 2019. According to the Circular, a uniform registration system over real estate is implemented. Competent department of land and resources of the State Council shall, in concert with other related departments, establish an uniform basic platform for real estate registration information management.

INSURANCE

Pursuant to the Construction Law of the PRC (《中華人民共和國建築法》) enacted by the Standing Committee of the National People's Congress on 1 November 1997, which took effect on 1 March 1998 and was amended on 22 April 2011 and 23 April 2019, construction enterprises are required to pay for work injury insurance for workers, and encouraged to maintain and pay for accident and casualty insurance for workers engaged in dangerous operations. The Guidance of the MOHURD on Strengthening the Insurance of Accidental Injury in Construction Works (《建設部關於加強建築意外傷害保險工作的指導意見》) issued by the MOHURD on 23 May 2003 further emphasises the importance of accidental injury insurance in construction works and provides specific guidance.

There is no mandatory provision under the PRC laws, regulations and government rules which require a property developer to take out insurance policies for its construction projects. According to the common practice of the property industry in China, construction companies are usually required to submit insurance proposals in the course of tendering and bidding for construction projects. Construction companies must pay for the insurance premium at their own costs and take out insurance to cover their liabilities, such as third party's liability risk, employer's liability risk, risk of non-performance of contract in the course of construction and other kinds of risks associated with the construction and installation works throughout the construction period. The insurance coverage for all these risks will cease immediately after the completion and acceptance upon inspection of construction.

MEASURES ON STABILISING HOUSING PRICE

The General Office of the State Council promulgated a Circular on Stabilising Housing Price in March 2005 (國辦發明電[2005]8號《國務院辦公廳關於切實穩定住房價格的通知》), introducing measures to be taken to restrain the housing price from increasing too fast and to promote a stable development of the real estate market. In May 2005, the Ministry of Construction, the National Development and Reform Commission, the Ministry of Finance, the Ministry of Land and Resources, the PBOC, the State Administration of Taxation and CBRC jointly issued an Opinions on Stabilising Housing Prices (國辦發[2006]37號《國務院辦公廳轉發建設部等部門關於調整住房供應結構穩定住房價格意見的通知》) which contains the following guidance:

- Where the housing price is growing too fast, while the supply of ordinary commodity houses at medium or low prices and low-cost affordable houses is insufficient, the housing construction should mainly involve projects of ordinary commodity houses at medium or low prices and low-cost affordable houses. The construction of low-density, high-end houses should be strictly controlled. The relevant local government authorities are authorised to impose conditions on planning and design such as the building height, plot ratio and green space and to impose such requirements as the selling price, type and GFA as preconditions on land assignment. The local governments are also required to strengthen their supervision of real estate developments in their jurisdictions.
- Where the price of land for residential use and the price for residential housing are growing too fast, the proportion of land supply for residential use to the total land supply should be appropriately raised, and the land supply for the construction of ordinary commodity houses

at medium or low prices and low-cost affordable houses should be especially increased. Land supply for villa construction should continue to be suspended, and land supply for high-end housing property construction should be strictly restricted.

- Idle land fee must be imposed on land that has not been developed for one year from the contractual construction commencement date. Land use rights of land that has not been developed for two years must be forfeited without compensation.
- Commencing from 1 June 2005, a business tax upon transfer of a residential house by an individual within two years from his/her purchase will be levied on the entire sales proceeds from such sale. For an individual to transfer an ordinary residential house after two years from his/her purchase, the business tax will be exempted. For an individual to transfer a property other than an ordinary residential house after two years from his/her purchase, the business tax will be levied on the difference between the price of such sale and the original purchase price.
- Ordinary residential houses with medium or small GFAs and at medium or low prices may be granted preferential treatment such as planning permits, land supply, credit and taxation. Houses enjoying these preferential policies must satisfy the following conditions in principle: the plot ratio is above 1.0, the GFA of one single unit is less than 120 sq.m., and the actual transfer price is lower than 120 per cent. of the average transfer price of comparable houses at comparable locations. The local governments at the provincial level may, based on their actual local circumstances, formulate specific standards for ordinary residential houses that may enjoy the preferential policies.
- Transfer of unfinished commodity properties by any pre-sale purchaser is forbidden. In addition, purchasers are required to buy properties in their real names. Any commodity property pre-sale contract must also be filed with the relevant government agencies electronically immediately after its execution.

The Notice on Adjustment of the Housing Loan Policy and Deposit Rate of Excess Reserve for Commercial Banks (銀發[2005]61號《中國人民銀行關於調整商業銀行住房信貸政策和超額準備金存款利率的通知》), promulgated by the PBOC in March 2005, has made adjustment to individual housing loan policies of commercial banks as well as individual housing fund loan rates. Pursuant to this notice, the preferential mortgage loan interest rate was replaced by the commercial loan interest rate subject to certain restrictions on the lower limit on such interest rates. In the urban areas or cities with rapidly increased real estate prices, minimum down payment ratio for individual housing loans was adjusted from 20 per cent. to 30 per cent. In May 2006, the Ministry of Construction, the National Development and Reform Commission, the PBOC and other relevant PRC government authorities jointly issued their Opinions on Housing Supply Structure and Stabilisation of Property Prices (國辦發[2005]26號《國務院辦公廳轉發建設部等部門關於做好穩定住房價格工作意見的通知》). Such opinions reiterated the existing measures and ushered additional measures that aim to further curb rapid increases in property prices in large cities and to promote healthy development of the PRC property market. These measures include:

- requiring that at least 70 per cent. of the land supply approved by a local government for residential property development for any given year must be used for developing low- to medium-cost and small- to mid-size units and low-cost rental properties;
- requiring that at least 70 per cent. of residential projects approved or constructed on or after 1 June 2006 must consist of units with a unit floor area of less than 90 sq.m. per unit and that projects which have received approvals prior to this date but have not obtained construction commencement permits must adjust their planning in order to be in conformity with this new requirement, with the exception that municipalities under direct administration

of the PRC central government, such as Beijing, Chongqing and Shanghai, provincial capitals and certain other cities may deviate from such ratio under special circumstances upon approval from the Ministry of Construction;

- increasing the minimum amount of down payment from 20 per cent. to 30 per cent. of the purchase price of the underlying property if the underlying property has a unit floor area of 90 sq.m. or more, effective from 1 June 2006;
- prohibiting commercial banks from lending to real estate developers with an internal capital ratio, calculated by dividing the internal funds by the total project capital required for the relevant projects, of less than 35 per cent., restricting the grant or extension of revolving credit facilities to property developers holding a large amount of idle land and vacant commodity properties, and prohibiting commercial banks from accepting commodity properties which have been vacant for more than three years as security for their loans; and
- imposing a business tax levy on the entire sales proceeds from transfer of properties if the holding period is shorter than five years, effective from 1 June 2006, as opposed to two years when such levy was initially implemented in June 2005, and allowing such business tax to be levied on the difference between the price for such resale and the original purchase price in the event that an individual transfers a property other than an ordinary residential property after five years from his/her date of purchase.

In July 2006, the Ministry of Construction, the National Development and Reform Commission, the MOFCOM, the PBOC, the State Administration for Industry and Commerce, and SAFE jointly issued an Opinion on Regulating the Access and Management of Foreign Capital in the Real Estate Market (建住房[2006]171號《關於規範房地產市場外資准入和管理的意見》)(the “171 Opinion”), which was amended in August 2015. The 171 Opinion aims to tighten access by foreign capital to the PRC real estate market and to restrict property purchases in China by foreign institutions or individuals. It provides, among others, that a foreign institution or individual must establish a foreign-invested enterprise in order to purchase real property in China if the property is not intended for self-use. The registered capital of such foreign-invested enterprise must amount to at least 50 per cent. of its total investments in PRC real properties if the amounts of such investments exceed US\$10 million. Branches and representative offices of foreign institutions in China and foreign individuals who work or study in China for more than one year may purchase real property for their own use but not for any other purposes. In addition, foreign institutions which have no branches or representative offices in China or foreign individuals who work or study in China for less than a year are prohibited from purchasing any real property in China. In September 2006, SAFE and the Ministry of Construction jointly issued Notice in Respect of Relevant Issues concerning Regulating the Administration of Foreign Exchange in the Real Estate Market (滙發(2006)47號《關於規範房地產市場外匯管理有關問題的通知》)(the “47 Notice”) (amended on 4 May 2015) to implement the 171 Opinion. The 47 Notice provides specific procedures for purchasing real properties by foreign institutions and foreign individuals. The 47 Notice, amended in May 2015 under the Notice of the State Administration of Foreign Exchange on Repealing and Amending Relevant Regulatory Documents Involving the Reform of the Registration System for Registered Capital, also forbids a foreign invested real estate enterprise to apply for overseas loans if it has failed to obtain the land use rights certificates, or its own capital funds do not reach 35 per cent. of the total investment for the project.

In September 2007, the Ministry of Land and Resources issued the Notice on Implementation of the State Council’s Certain Opinions on Resolving Difficulties and Further Strengthening Macro-control of Land Supply (國土資發[2007]26號《關於認真貫徹〈國務院關於解決城市低收入家庭住房困難的若干意見〉進一步加強土地供應調控的通知》)(amended on 3 December 2010), pursuant to which at least 70 per cent. of the land supply arranged by the relevant land administration authority at city or county level for residential property development for any given year must be used for developing low- to medium-cost and small- to medium-size units, low-cost rental properties and affordable housing.

In July 2008, the PBOC and CBRC jointly issued the Notice on Financially Promoting the Saving and Intensification of Use of Land (Yin Fa (2008) No. 214)(銀發[2008]214號《關於金融促進節約集約用地的通知》), requiring that relevant financial institutions to strengthen the administration of construction land project loans, including the administration of commercial real estate credit loan.

In October 2008, the PBOC issued the Notice on Extending the Downward Range of the Interest Rate for Commercial Personal Home Loans and Supporting the Residents in First-time Purchase of Ordinary Residential Homes (銀發[2008]302號《中國人民銀行關於擴大商業性個人住房貸款利率下浮幅度等有關問題的通知》), pursuant to which, since 27 October 2008, the bottom limit of the interest rate applicable to the commercial personal home loans has been extended, the minimum amount of down payment has been adjusted to 20 per cent. and the interest rate applicable to personal home loans financed by provident fund has also been reduced.

In December 2008, the General Office of the State Council issued the Several Opinions on Facilitating the Healthy Development of the Real Estate Market (Guo Ban Fa (2008) No. 131)(國辦發[2008]131號《國務院辦公廳關於促進房地產市場健康發展的若干意見》), which aims to, among other things, encourage the consumption of the ordinary residence and support the real estate developer to handle the market change. Pursuant to this opinion, in order to encourage the consumption of the ordinary residence, from 1 January to 31 December 2009, business tax is imposed on the full amount of the sale income upon the transfer of a non-ordinary residence by an individual within two years from the purchase date. For the transfer of a non-ordinary residence which is more than two years from the purchase date and ordinary residence which is within two years from the purchase date, the business tax is to be levied on the difference between the sale income and the purchase price. In the case of an ordinary residence, the business tax is exempted if that transfer occurs after two years from the purchase date. Furthermore, individuals with an existing ordinary residence that is smaller than the average size for their locality may buy a second ordinary residence under favourable loan terms similar to first-time buyers. In addition, support for real estate developers to deal with the changing market is to be provided by increasing credit financing services to “low- to medium-level price” or “small- to mid-sized” ordinary commercial housing projects, particularly those under construction, and providing financial support and other related services to real estate developers with good credit standing for merger and acquisition activities.

In December 2009, the State Council terminated the policy on preferential treatment relating to business taxes payable upon transfers of residential properties by property owners as previously adopted in December 2008 by the PRC government in response to the global economic slowdown, and the Ministry of Finance and the State Administration of Taxation jointly issued the Notice on Adjusting the Policy of Business Tax on Re-sale of Personal Residential Properties (財稅[2009]157號《關於調整個人住房轉讓營業稅政策的通知》), as amended in January 2011 and March 2015, to curtail speculations in the property market in response to the property price increases across the country. Pursuant to the notice, effective from 1 January 2010, business tax will be imposed on the full amount of the sale income upon the transfer of non-ordinary residence by an individual within five years, instead of two years, from the purchase date. For the transfer of non-ordinary residence which is more than five years from the purchase date and ordinary residence which is within five years of the purchase date, the business tax is to be levied on the difference between the sale income and the purchase prices. In the case of an ordinary residence, the business tax is exempted if that transfer occurs after five years from the purchase date.

In January 2010, the General Office of the State Council issued a Circular on Facilitating the Stable and Healthy Development of Property Market (Guo Ban Fa (2010) No. 4) (國辦發[2010]4號《關於促進房地產市場平穩健康發展的通知》) which adopted a series of measures to strengthen and improve the regulation of the property market, stabilise market expectation and facilitate the stable and healthy development of the property market. These include, among others, measures to increase the supply of affordable housing and ordinary commodity housing, provide guidance for the purchase of property, restrain speculation of properties, and strengthen risk prevention and market supervision.

Additionally, it explicitly requires a family (including a borrower, his or her spouse and children under 18), who have already purchased a residence through mortgage financing and have applied to purchase a second or more residences through mortgage financing, to pay a minimum down payment of 40 per cent. of the purchase price.

In March 2010, the Ministry of Land and Resources published the Notice on Increasing the Supply of Land for Real Estate Development and the Tightening of Regulation (Guo Tu Zi Fa (2010) No. 34) (國土資發[2010]34號《關於加強房地產用地供應和監管有關問題的通知》). The notice contains 19 rules which provide for the inspection of land supply, law enforcement and regulation, information disclosure and other material issues, including provisions that the minimum land premium payable shall not be less than 70 per cent. of the benchmark price for land of the same grade as that of the lot to be granted and that the competitive bid bond shall not be less than 20 per cent. of the minimum land premium. 50 per cent. of the total land premium must be paid within one month of the signing of the contract as down payment with the remainder to be paid by the time agreed in the contract, but in any event no later than one year after the signing of the contract. If a real estate developer fails to pay the land premium when due or is found to be leaving the land idle, hoarding or speculating on land, or to have undertaken land development beyond its capacity or failed to perform its obligations under the land use contract, the relevant municipal or county administrative authority shall prohibit it from participating in any competitive bidding for land within a certain period of time.

In April 2010, the Ministry of Housing and Urban-Rural Development issued the Notice on Issues Relating to the Further Strengthening of Real Estate Market Regulation and Improvement of the Pre-selling System for Commodity Housing (Jian Fang (2010) No. 53)(建房[2010]53號《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》) which stipulates that if the pre-sale permit is yet to be received for a commodity housing project, the real estate developer must not receive any form or disguised form of payment from purchasers which is in the nature of earnest money or deposit. Real estate developers are required to disclose, within 10 days of the receipt of the pre-sale permit, all the properties approved for pre-sale and the price of each unit, and to sell the properties at prices which are the same as the prices submitted in the pre-sale proposal.

In April 2010, the State Council issued the Circular on Restraining the Housing Price from Increasing Rapidly for Some Cities (Guo Fa (2010) No. 10)(國務院關於堅決遏制部分城市房價過快上漲的通知) which sets out rules designed to curb the rapid increase in the prices of housing in certain cities, including:

- The differentiation of mortgage financing granted to residential property buyers:
 - a household (including the borrower, his or her spouse and any minor children) that borrows a mortgage loan for the purchase of its first residential property, of which the building area is more than 90 sq.m., must make a down payment of not less than 30 per cent. of the purchase price;
 - a household that borrows a mortgage loan for the purchase of its second residential property must make a down payment of not less than 50 per cent. of the purchase price and pay a mortgage rate which is not lower than 110 per cent. of the benchmark interest rate;
 - the down payment proportion and mortgage rate applicable to the purchase of a household's third residential property or beyond shall be significantly increased at the sole discretion of the commercial banks according to their risk controlling principles.
- In regions where commodity housing prices are too high, have increased too rapidly or where commodity housing is in short supply, commercial banks may suspend the grant of mortgage loans to any third-time (or beyond) home buyers if they deem it appropriate according to the risks involved, and may suspend the grant of mortgage loans to any non-local home buyers

who are unable to provide proof of payment of local taxes or social security contributions covering a period of one year or more. Local governments may, based on the circumstances, impose temporary restrictions during a certain period of time on the number of properties that can be purchased;

- The shareholders of a real estate developer must not, in violation of the regulations, provide the developer with any loan, on-lent loan, security or other facility to support the developer's participation in any competitive bidding for land or its conduct of development and construction work;
- Commercial banks are prohibited from providing loans for new development projects to real estate developers who have been found to be leaving their land idle and speculating on land, and the relevant securities regulatory authorities shall suspend the granting of approval for the listing of or any refinancing or material asset restructuring by such real estate developers; and
- For a real estate development project that has received a pre-sale permit or has completed the recording procedures for the sale of completed properties, all the properties available for sale must be disclosed within the required period of time and sold at prices which are the same as the submitted prices in the pre-sale proposal.

On 26 May 2010, the PBOC, the Ministry of Housing and Urban-Rural Development and the CBRC jointly issued the Circular on Regulating the Criteria for Identifying the Second Residential Properties in Connection with Individual Commercial Housing Loans (關於規範商業性個人住房貸款中第二套住房認定標準的通知), which aims to implement the State Council Notice on Firmly Preventing Property Price from Increasing Too Rapidly in Certain Cities (Guo Fa (2010) No. 10) and mainly provides, among others, that:

- The number of set of residential properties owned by a resident household who is applying for individual commercial housing loans shall be determined by taking account of the total number of set of residential properties actually owned by the members of the household of the purchaser (including the borrower and his or her spouse and children under the age of 18 years) under their names.
- Upon the application or authorisation of the borrower, the urban real estate administration authorities at the levels of the municipalities directly under the State Council, cities with independent budgetary status, provincial capital cities and other cities that can meet the requirements of inquiry shall, through the property registration information system, check the registration record of the residential properties of the borrower's household and issue a written result of the check.
- Where the result of household residential properties registration inquiry cannot be provided for the reason that the inquiry service is not available locally for the time being, the borrower shall provide the lender with a good faith written warranty on the actual number of set of residential properties owned by his or her household. If the lender proves that such good faith warranty has been breached, it shall record a misconduct for such borrower.
- In the event of occurrence of any of the following circumstances, the differential housing loan policies shall be implemented and applied to any borrower who has one or more residential properties and wants to purchase an additional residential property:

- (i) the borrower submits first time an application for a loan for purchasing a residential property and the real property registration systems (including the pre-sale contract registration system, same below) of the locality where the residential property to be purchased is located show that there exists one or more residential properties already registered for his/her household;
 - (ii) the borrower has utilised any of the loans to purchase one or more residential properties and submits an application for a loan for purchasing a residential property; or
 - (iii) the lender believes that the borrower has one or more residential properties based on the results of its due diligence (including the borrower's creditworthiness check, face-to-face testing, interviewing with the borrower and when necessary visiting the borrower's residential address).
- The differential housing loan policies shall be implemented and applied to any borrower who is a non-resident of the locality where the residential property to be purchased is located and has failed to provide the evidence proving his payment of local taxes or social security contributions for more than one year; and commercial banks in cities where the price of properties is too high, increasing too rapidly or where properties are in short supply may cease to grant any housing loans to the borrowers of this kind in accordance with the provisions of local government policies.
 - Real property registration systems to be generally established in the cities divided into districts by end of year 2010.

On 29 September 2010, by jointly issuing the Notice to Adjust the Preferential Policies on Deed Tax and Individual Income Tax Regarding Real Estate Transaction (Cai Shui 2010 No. 94)(關於調整房地產交易環節契稅個人所得稅優惠政策的通知), the Ministry of Finance State Administration of Taxation and the MOHURD decided to levy the deed tax at a reduced rate of 50 per cent. on the ordinary residential property purchased by an individual which is the sole residential property of his or her household (whose members shall include the purchaser and his or her spouse and children under the age of 18 years, the same is applicable below). For an individual who purchases an ordinary residential property which has an area of 90 square meters or less and is the sole residential property of the household, the rate of deed tax shall be reduced to 1 per cent. In addition, for ordinary residential properties purchased by individuals which do not meet the above provisions, the purchaser shall not enjoy the said preferential policies. A taxpayer who sells his or her self-owned residential properties and re-purchases residential properties within one year shall not enjoy the reduction or exemption of the individual income tax.

On 29 September 2010, the PBOC and the CBRC issued the Circular on Relevant Issues for Improving the Differential Housing Loan Policies (Yin Fa (2010) No. 275)(關於完善差別化住房信貸政策有關問題的通知) in order to further implement the key points reflected in the State Council Notice on Firmly Preventing Property Price from Increasing Too Rapidly in Certain Cities (Guo Fa (2010) No. 10)(關於堅決遏制部分城市房價過快上漲的通知). This Circular requires that:

- Commercial banks must suspend granting of any housing loan to any household which intends to purchase its third or more residential property and non-local residents who are unable to provide a local tax-payment certificate or social insurance contribution payment certificate for a term of one year or longer.
- For those who use mortgages to purchase residential properties, the minimum down payment was adjusted to a minimum 30 per cent. of the total purchase price of the relevant property; and for a household which uses mortgages to purchase its second residential properties, the policy requiring a minimum 50 per cent. down payment and the mortgage interest rate of at least 1.1 times of the base interest rate was implemented.

- Commercial banks were prohibited to use consumption purpose loans for residential property purchase.
- Commercial banks must cease to grant loans for newly developed projects and renewal of loan terms to real estate developers that have records of violation of laws and regulations as a result of, among other things, rendering the land idle, changing the purpose and nature of land, delaying the construction commencement and completion time and refusing to sell out the properties.
- Commercial banks that do not strictly implement the differential housing loan policies will be stringently punished once proved.
- Loan requests from real estate developers for undertaking the construction projects of low and middle price or small and middle-sized residential properties and participating in social security-purpose residential properties construction projects are encouraged to be granted.
- Financial institutions' support to the social security-purpose residential properties construction projects is encouraged, and policies to support the mid- and long-term loans for the construction of government-sponsored public rental housing projects will be formulated on an urgent basis.

On 30 September 2010, the Ministry of Land and Resources, Ministry of Housing and Urban-Rural Development and Ministry of Supervision jointly issued the Circular on the Further Implementation of Document Guo Fa (2010) No. 10 (關於進一步貫徹落實國發[2010]10號文件的通知) (Jian Fang (2010) No. 155, commonly known as the “New Five State Provisions”), which expressly requires the imposition of restriction during a certain period of time on the number of properties which a household of residents is allowed to purchase in cities where the housing prices are too high, increasing too rapidly or where housing is in short supply.

On 19 October 2010, the PBOC decided that the base interest rates for Renminbi savings and loans offered by financial institutions were to increase from 20 October 2010. The base interest rate for one-year Renminbi savings will be increased by 0.25 per cent., from 2.25 per cent. to 2.50 per cent.; the base interest rate for one-year loans will be increased by 0.25 per cent., from 5.31 per cent. to 5.56 per cent.; the base interest rate for savings and loans of other terms will be adjusted accordingly.

On 20 October 2010, the Ministry of Housing and Urban-Rural Development issued the Notice of Adjustment of Housing Fund Saving and Lending Interest Rates (Jian Jin (2010) No. 169)(關於調整住房公積金存款利率的通知), which provides that “1. Beginning from 20 October 2010, the interest rate for individual housing fund contributions carried forward from the previous year will be increased by 0.2 per cent., from 1.71 per cent. at present to 1.91 per cent. The interest rate for individual housing fund contributions received during the year will remain unchanged. 2. Beginning from 20 October 2010, the interest rate for individual housing fund loans will be increased. The interest rate for individual housing fund loans with a term of five years or below and loans with a term of over five years will be increased by 0.17 per cent. and 0.18 per cent., respectively. The interest rate for loans with a term of five years or below will be increased from 3.33 per cent. to 3.50 per cent., while the interest rate for loans with a term of over five years will be increased from 3.87 per cent. to 4.05 per cent. 3. Beginning from 20 October 2010, the lending interest rate in pilot cities for the financing of subsidised housing construction with housing fund will be equivalent to the interest rate for individual housing fund loans with a term of over five years plus 10 per cent., and will be adjusted according to the changes in the individual housing fund lending interest rate”.

Furthermore, since 30 September 2010, many cities have issued measures for the restriction of the number of properties which may be purchased by residents. As at 20 October 2010, a total of 14 cities, namely Beijing, Shanghai, Tianjin, Shenzhen, Guangzhou, Xiamen, Hangzhou, Sanya, Ningbo, Nanjing, Fuzhou, Haikou, Wenzhou and Dalian, had issued measures for restricting the number of properties which may be purchased by residents.

In November 2010, Ministry of Housing and Urban-Rural Development, the Ministry of Finance, the People's Bank of China and the China Regulatory Banking Commission jointly promulgated the Notice on Relevant Issues Concerning Policies of Regulation of Individual Housing Reserve Loan (關於規範住房公積金個人住房貸款政策有關問題的通知), which provides that, among other things: (i) where a first-time house purchaser (including the borrower, his/her spouse and minor children) uses housing reserve loans to buy an ordinary house for self-use with a unit floor area: (a) equal to or less than 90 sq.m., the minimum down payment shall be at least 20 per cent. or (b) more than 90 sq.m., the minimum down payment shall be at least 30 per cent.; (ii) for a second-time house purchaser that uses housing reserve loans, the minimum down payment shall be at least 50 per cent. with the minimum lending interest rate at least 1.1 times the benchmark rate; (iii) a second housing reserve loan will only be available to families whose per capita housing area is below the average in their locality and such loan must only be used to purchase an ordinary house for self-use to improve their residence conditions; and (iv) granting housing reserve loans to families for their third residential property and beyond will be suspended.

In December 2010, the Ministry of Land and Resources promulgated the Notice on Strict Implementation of Policies Regarding Regulation and Control of Real Property Land and Promotion of the Healthy Development of Land Markets (關於嚴格落實房地產用地調控政策促進土地市場健康發展有關問題的通知), which provides, among other things, that: (i) cities and counties that have less than 70 per cent. of their land supply designated for affordable housing and small/medium residential units shall not provide land for large-sized and high-end housing before the end of 2011; (ii) land and resource authorities in local cities and counties will report to the Ministry of Land and Resources and provincial land and resource authorities, respectively, regarding land with a premium rate of more than 50 per cent., or of which the total transaction amount or unit price reaches a record high; and (iii) land designated for affordable housing which is used for property development against relevant policies or which involve illegal income will be confiscated and the relevant land use rights will be withdrawn. Moreover, the notice stipulated that changing the plot ratio of land without approval is strictly prohibited.

The State Council has approved on a trial basis the launch of a property tax scheme in selected cities. On 27 January 2011, each of the local governments of Shanghai and Chongqing issued its respective measures for implementing its pilot property tax schemes.

On 9 February 2011, the Ministry of Housing and Urban-Rural Development issued the Notice of Adjustment of Housing Fund Saving and Lending Interest Rates (Jian Jin (2011) No. 32) (關於調整住房公積金存貸款利率的通知), which provides that, beginning from 9 February 2011, (i) the interest rate for individual housing fund contributions carried forward from the previous year will be increased by 0.35 per cent. from 2.25 per cent. to 2.6 per cent and (ii) (a) the interest rate for individual housing fund loans with a term of five years or less and with a term of more than five years will be increased by 0.25 per cent. and 0.2 per cent., respectively., and (b) the interest rate for loans with a term of five years or less and with a term of more than five years will be increased from 3.75 per cent. to 4 per cent. and from 4.3 per cent. to 4.5 per cent, respectively.

On 6 April 2011, the Ministry of Housing and Urban-Rural Development issued the Notice of Adjustment of Housing Fund Saving and Lending Interest Rates (Jian Jin (2011) No. 44) (關於調整住房公積金存貸款利率的通知), which provides that, beginning from 6 April 2011, (i) the interest rate for individual housing fund contributions carried forward from the previous year will be increased by 0.25 per cent. from 2.6 per cent. to 2.85 per cent., (ii) (a) the interest rate for individual housing fund loans

with a term of five years or less and with a term of more than five years will be increased by 0.2 per cent. and 0.2 per cent., respectively, and (b) the interest rate for loans with a term of five years or less and with a term of more than five years will be increased from 4 per cent. to 4.2 per cent. and from 4.5 per cent. to 4.7 per cent., respectively, and (iii) the lending interest rate in pilot cities for the financing of subsidised housing construction with housing funds will be equivalent to the interest rate for individual housing fund loans with a term of more than five years plus 10 per cent.

On 7 July 2011, the Ministry of Housing and Urban-Rural Development issued the Notice of Adjustment of Housing Fund Saving and Lending Interest Rates (Jian Jin (2011) No. 94) (關於調整住房公積金存貸款利率的通知), which provides that, beginning from 7 July 2011, (i) the interest rate for individual housing fund contributions carried forward from the previous year of 2010 would be increased by 0.25 per cent. from 2.85 per cent. to 3.1 per cent. while the interest rate for individual housing fund contributions received during the year of 2011 would remain unchanged, (ii) the interest rate for individual housing fund loans with a term of five years or less and with a term of more than five years will be increased by 0.25 per cent. and 0.2 per cent., respectively, and the interest rate for loans with a term of five years or less and with a term of more than five years will be increased from 4.2 per cent. to 4.45 per cent. and from 4.7 per cent. to 4.9 per cent., respectively, and (iii) the lending interest rate in pilot cities for the financing of subsidised housing construction with housing funds will be equivalent to the interest rate for individual housing fund loans with a term of more than five years plus 10 per cent.

On 19 July 2012, the Ministry of Land and Resources and the Ministry of Housing and Urban-Rural Development issued the Urgent Notice to Further Tighten Up Real Property Land Administration and Consolidate the Achievement of Macroeconomic Control of the Real Property Market (《國土資源部、住房城鄉建設部關於進一步嚴格房地產用地管理鞏固房地產市場調控成果的緊急通知》). According to this Notice, the Ministry of Land and Resources, the Ministry of Housing and Urban-Rural Development and their respective local counterparts will continue to strictly regulate the market to prevent housing prices from rebounding. Local governments must ensure adequate supply of land for social security housing projects, and must try to increase the completion rate of such projects. Further, the governments will further improve the land price evaluation procedure, thereby allowing for the reasonable determination of base prices for land auction. For those auctions in which the land prices may be raised to a significantly higher level, the governments must adjust the bidding method in a timely manner. For those lands which are expected to reach unprecedentedly high prices and those lands whose final prices represent a premium of more than 50 per cent. to the base price the government should adjust the land transfer scheme in a timely manner, such as by limiting the final home prices or requiring the land purchaser to build additional social security housing projects. Further, the government will continue enforcing the system for reporting unusual transactions, which requires that governments at city-level and county-level should, within two business days upon the signing of purchase confirmation letter or the dispatch of the letter of acceptance, submit the unusual transaction data to the national land market monitoring and administration system, thereby reporting the unusual transaction to the Ministry of Land and Resources and its agencies at the provincial level.

Additionally under this notice, the government emphasises that the land to be transferred should not exceed its upper limit of area, and some other acts will continue to be strictly prohibited, such as combining two or more separate tracts of land into one bidding subject, or transferring land without first completing the demolition and relocation work. The floor-area ratio of residential land should be no less than 1. Further, land allocation decision or land transfer contract should require real estate developer to commence the construction and development within one year after the land has been delivered to it and to complete the construction and development within three years. The government will strictly inspect the competence of bidders and prohibit any bank loan from being used for the payment of land price. The deposit for land auction or bidding should not be less than 20 per cent. of the base price. After the deal of land transfer has been reached, the land transfer agreement should be signed within 10 business days, 50 per cent. of the land premium should be paid within one month after the signing of the land transfer agreement and the payment of remaining land premium should be made within one year. Also,

the government should prohibit the purchaser from purchasing land for a certain period if such a purchaser (a) failed to pay the land premium, in a timely manner; (b) intentionally left the land idle; (c) intentionally reserved land for the purpose of resale; (d) developed land beyond its development capability; or (e) failed to duly perform the land use contract.

On 5 November 2012, the Ministry of Land and Resources, the Ministry of Finance, the PBOC and CBRC jointly promulgated the Notice on Strengthening Land Reserves and Financing Administration (Guotuzi Fa [2012] No. 162) (《關於加強土地儲備與融資管理的通知》(國土資發[2012]162號)) in order to strengthen land bank institutions administration, determine the reasonable scale and structure of land bank, strengthen the administration of land pre-development, reservation and protection, and regulate the financing to land reservation and the use of land reservation funds.

On 26 February 2013, the General Office of the State Council issued the Notice on Continuing to Effectively Regulate the Real Estate Market (《繼續做好房地產市場調控工作的通知》), requiring certain related cities to fine-tune the existing house purchase restrictions on the basis of strict compliance with the Notice of the General Office of the State Council on Further Improving the Macroeconomic Control of the Real Property Market (Guo Ban Fa [2011] No. 1) (《國務院辦公廳關於進一步做好房地產市場調控工作有關問題的通知》國辦發[2011]1號), which includes, among others: (i) all administrative regions of a city subject to purchase restrictions shall be covered under such restrictions, while the types of houses subject to purchase restrictions shall include all newly-constructed commercial housing and second-hand housing. The house purchase eligibility shall be examined before the conclusion of a house purchase contract (or a letter of purchase intent). For the time being, houses within the administrative regions of a city shall not be sold to a family without local household register that already owns one or more houses, and a family without local household register that is unable to provide proofs for a certain number of consecutive years of local tax payment or social insurance contribution; (ii) with regard to cities with soaring housing prices, the local branches of the People's Bank of China may further raise the percentage of the minimum down payment (which shall not be lower than 60 per cent.) and loan interest rates which shall not be lower than 1.1 times of the benchmark interest rate for the second-home purchases, according to policy requirements and the price control targets determined by the local people's governments for newly-constructed commercial housing; and (iii) tax authorities shall levy individual income tax payable on the sales of owner-occupied houses at 20 per cent. of the transfer gain in strict accordance with the law if the original value of the houses sold can be verified through historical information, such as tax collection and administration and house registration.

Since 2013, as introduced in the foregoing sessions, the PRC government has promulgated a series of policies to prevent the overheating of the property market and stabilise the housing price based on macroeconomic conditions as well as the demand and supply of the property market. More recently, in August 2020, MOHURD and PBOC introduced several capital and financing management rules to regulate the real estate market, requiring some real estate enterprises to maintain (i) a debt-to-asset ratio of no greater than 70% after exclusion of the deposits received; (ii) a net debt ratio of no greater than 100%; and (iii) a cash to short-term debt ratio of no less than one. On 28 December 2020, the PBOC and CBIRC jointly promulgated a notice, which requires a PRC financial institution (excluding its overseas branches) to limit the amount of real estate loans and personal housing mortgage loans it lends to a proportion calculated based on the total amount of RMB loans extended by such financial institution.

OTHER PRC REGULATIONS

Overseas Listing

In August 2006, the MOFCOM, the State Assets Supervision and Administration Commission, the State Administration of Taxation, the State Administration of Industry and Commerce, the China Securities Regulatory Commission, and SAFE jointly adopted the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》),

as amended on 22 June 2009, or the New M&A Rule, which became effective on 8 September 2006. This New M&A Rule requires, among other things, that offshore special purpose vehicles, formed for overseas listing purposes through acquisitions of PRC domestic companies controlled by PRC companies or individuals, shall obtain the approval of the China Securities Regulatory Commission prior to publicly listing their securities on an overseas stock exchange. In September 2006, China Securities Regulatory Commission published a notice on its official website specifying documents and materials required to be submitted to it by special purpose vehicles seeking China Securities Regulatory Commission's approval of their overseas listings.

Environmental Protection

The laws and regulations governing the environmental protection requirements for real estate development in China include the PRC Environmental Protection Law, the PRC Prevention and Control of Noise Pollution Law, the PRC Environmental Impact Assessment Law and the PRC Administrative Regulations on Environmental Protection for Development Projects. Pursuant to these laws and regulations, depending on the impact of the project on the environment, an environmental impact report, an environmental impact assessment documents or an environmental impact registration form must be submitted by a developer before the relevant authorities grant approval for the commencement of construction of the property development. In addition, upon completion of the property development, the relevant environmental authorities will also inspect the property to ensure compliance with the applicable environmental protection standards and regulations before the property can be delivered to the purchasers.

Foreign Exchange Controls

Under the PRC Foreign Currency Administration Rules, promulgated in 1996 and revised in 1997 and as amended in 2008 and various regulations issued by SAFE and other relevant PRC government authorities, Renminbi is convertible into other currencies for the purpose of current account items, such as trade related receipts and payments and the payment interest and dividend. The conversion of Renminbi into other currencies and remittance of the converted foreign currency outside China for the purpose of capital account items, such as direct equity investments, loans and repatriation of investment, requires the prior approval from SAFE or its local office. Payments for transactions that take place within China must be made in Renminbi. Unless otherwise approved, PRC companies may repatriate foreign currency payments received from abroad or retain the same abroad. Foreign-invested enterprises may retain foreign exchange in accounts with designated foreign exchange banks subject to a cap set by SAFE or its local office. Foreign exchange proceeds under the current accounts may be either retained or sold to a financial institution engaging in settlement and sale of foreign exchange pursuant to relevant rules and regulations of the State. For foreign exchange proceeds under the capital accounts, approval from SAFE is required for its retention or sale to a financial institution engaging in settlement and sale of foreign exchange, except where such approval is not required under the rules and regulations of the State.

SAFE promulgated the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents' Offshore Investment and Financing and Round-trip Investment through 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》)(“SAFE Circular 37”), on 4 July 2014, which replaced the former circular commonly known as “SAFE Circular 75”. SAFE Circular 37 requires PRC residents to register with local counterparties of SAFE in connection with their direct establishment or indirect control of an offshore entity, whose purpose is for overseas investment and financing using such PRC residents' legally owned, onshore or offshore, directly or indirectly, assets or equity interests, referred to in SAFE Circular 37 as a “special purpose vehicle” (the “SPV”). SAFE Circular 37 further requires prompt updates of the registration in the event of any significant changes with respect to the SPV, such as increase or decrease of capital contributions by PRC individuals, share transfer or exchange, merger, division or other material event. In the event that a PRC shareholder holding interests in a SPV fails to fulfill the required SAFE registration, the PRC affiliates or associates of that SPV may be prohibited

from distributing profits to their offshore SPV and from carrying out subsequent cross-border foreign exchange activities, and the SPV may be restricted in its ability to contribute additional capital into its PRC affiliates or associates. Furthermore, failure to comply with the abovementioned SAFE registration requirements could result in liability under PRC law for evasion of foreign exchange controls.

On 13 February 2015, the SAFE promulgated the Notice on Further Simplifying and Improving the Administration of the Foreign Exchange Concerning Direct Investment (《關於進一步簡化和改進直接投資外匯管理政策的通知》)(the “SAFE Circular 13”). After SAFE Circular 13 became effective on 1 June 2015, rather than applying for approvals regarding foreign exchange registrations of foreign direct investment and overseas direct investment from SAFE, entities and individuals will be required to register such foreign exchange with qualified banks. The qualified banks, under the supervision of the SAFE, will directly conduct the registration and oversee the foreign exchange activities.

In accordance with the Circular of the State Administration of Foreign Exchange on Reforming the Management Approach regarding the Settlement of Foreign Exchange Capital of Foreign-invested Enterprises (《國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知》), was promulgated on 30 March 2015 by the SAFE, and became effective on 1 June 2015, the foreign exchange capital in the capital account of foreign-invested enterprises for which the confirmation of rights and interests of monetary contribution by the local foreign exchange bureau (or the book-entry registration of monetary contribution by the banks) has been handled can be settled at the banks based on the actual operation needs of the enterprises. The proportion of discretionary settlement of foreign exchange capital of foreign-invested enterprises is temporarily determined as 100%. The SAFE can adjust the aforementioned proportion in due time based on the situation of international balance of payments.

On 9 June 2016, the SAFE issued the Notice on Reforming and Regulating the Policies for the Administration of Settlement of Foreign Exchange under Capital Accounts (《國家外匯管理局關於改革和規範資本項目結匯管理政策的通知》), which provided, among others, that the settlement of foreign exchange funds under capital accounts (including the foreign capital, debt financing and overseas listing repatriation of funds, and so on) that are subject to voluntary settlement explicitly implemented by relevant policies may be handled at banks based on the domestic institutions’ actual requirements for business operation. Where there are restrictive provisions in any current regulations on the settlement of foreign exchange funds under capital accounts of domestic institutions, such restrictive provisions shall prevail.

PRC TAXATION

Because the Issuer and the Guarantor are not incorporated in the PRC, investment in the Notes is largely exempt from PRC tax laws, except as disclosed in the section entitled “*Risk Factors – Risks Relating to the PRC – The Guarantor may be deemed a PRC resident enterprise under PRC EIT Law, which may subject it to the PRC taxation on its worldwide income. In addition, if the Issuer is deemed as a PRC resident enterprise, it would be required to withhold taxes on interest it pays on the Notes and the investors of the Notes would be required to pay taxes on gains realised from the sale of the Notes*”. But because a substantial part of the Guarantor’s business operations are in the PRC and it carries out these business operations through operating subsidiaries and joint ventures organised under the PRC law, its PRC operations and its operating subsidiaries and joint ventures in the PRC are subject to PRC tax laws and regulations, which indirectly affect an investor’s investment in the Notes. For information on taxation of a holder of Notes in other jurisdictions, see “*Taxation*”.

Dividends From The Group’s PRC Operations

Under the EIT Law and its implementation rules, enterprises established under the laws of foreign jurisdictions but whose “de facto management body” is located in China are treated as “resident enterprises” for PRC tax purposes and will be subject to PRC EIT on their worldwide income. For such PRC tax purposes, dividends from PRC subsidiaries to their foreign shareholders are excluded from such

taxable worldwide income. Under the implementation rules of the EIT Law, “de facto management bodies” is defined as the bodies that have material and overall management control over the business, personnel, accounts and properties of an enterprise.

Taxes Applicable to Property Developers

The Guarantor’s subsidiaries and joint ventures through which it conducts the Group’s business operations in the PRC are subject to PRC tax laws and regulations.

Deed Tax

Under the PRC Interim Regulation on Deed Tax, which will be replaced by Deed Law of the PRC from 1 September 2021, a deed tax is chargeable to transferees of land use rights or ownership in real properties within the territory of the PRC. These taxable transfers include:

- grant of use right of state-owned land;
- sale, gift and exchange of land use rights, other than transfer of right to manage rural collective land; and
- sale, gift and exchange of real properties.

Deed tax rate is between 3 per cent. to 5 per cent. subject to determination by local governments at the provincial level in light of the local conditions.

Corporate Income Tax

Under the EIT Law (《中華人民共和國企業所得稅法》), effective from 1 January 2008 and amended on February 2017 and December 2018, a unified EIT rate is set at 25 per cent. for both domestic enterprises and foreign-invested enterprises. In addition, dividends from PRC subsidiaries to their foreign shareholders will be subject to a withholding tax at a rate of 10 per cent. unless any lower treaty rate is applicable. However, under the new tax law and its implementation rules, enterprises established under the laws of foreign jurisdictions but whose “de facto management body” is located in China are treated as “resident enterprises” for PRC tax purposes and will be subject to PRC EIT on their worldwide income. Dividends from PRC subsidiaries to their foreign shareholders are excluded from such taxable worldwide income. Under the implementation rules of the EIT Law, “de facto management bodies” is defined as the bodies that have material and overall management control over the business, personnel, accounts and properties of an enterprise.

On 6 March 2009, the State Administration of Taxation issued the Notice on the Measures for the Treatment of Enterprise Income Tax on Real Estate Development and Operation Businesses, regulating the revenue, cost of sales, fees deduction, accounting of costs and tax treatment of specific matters of enterprises engaging in the real property business in the PRC, in relation to the imposition of EIT.

Value-add Tax (“VAT”)

On 23 March 2016, the Ministry of Finance and the SAT issued the Circular on Comprehensively Promoting the Pilot Program of the Collection of Value-added Tax in Lieu of Business Tax (關於全面推開營業稅改徵增值稅試點的通知)(the “Circular 36”) which confirms that business tax will be completely replaced by VAT from 1 May 2016. Since then, the income derived from the provision of financial services which attracted business tax will be entirely replaced by, and subject to, VAT.

According to Circular 36, the entities and individuals providing the services within China shall be subject to VAT. The services are treated as being provided within China where either the service provider or the service recipient is located in China. The services subject to VAT include the provision of financial services such as the provision of loans. It is further clarified under Circular 36 that the “loans” refers to the activity of lending capital for another’s use and receiving the interest income

thereon. Although the issuance of the Notes is likely to be treated as financial services for VAT purposes, Circular 36 stipulates that services are treated as being provided within the PRC where either the service provider or the service recipient is located in the PRC. In connection with the issuance of the Notes, none of the Issuer or the Noteholders is located in the PRC. There is no assurance that the issuance of the Notes will not be treated as financial services for VAT purpose. If the issuance of Notes is treated as the Noteholders providing financing services within the PRC by the relevant tax authorities, the holders of the Notes shall be subject to VAT at the rate of 6 per cent. when receiving the interest payments under the Notes. In addition, the holders of the Notes shall be subject to the local levies generally at approximately 12 per cent. of the VAT payment and consequently, the combined rate of VAT and local levies would be generally around 6.72 per cent. Given that the Issuer or the Guarantor (if the Guarantor is required to discharge its obligations under the Guarantee) pays interest income to Noteholders who are located outside of the PRC, the Issuer or the Guarantor acting as the obligatory withholder in accordance with applicable law, shall withhold VAT and local levies from the payment of interest income to Noteholders who are located outside of the PRC.

Where a holder of the Notes who is an entity or individual located outside of the PRC resells the Notes to an entity or individual located outside of the PRC and derives any gain, since neither the service provider nor the service recipient is located in the PRC, theoretically Circular 36 does not apply to any transfer of the Notes. However, there is uncertainty as to the applicability of VAT if either the seller or buyer of Notes is located inside the PRC.

Land Appreciation Tax

Under the PRC Interim Regulation on Land Appreciation Tax of 1994, as amended in January 2011, and its implementation rules of 1995, LAT applies to both domestic and foreign investors in real properties in the PRC, irrespective of whether they are corporate entities or individuals. The tax is payable by a taxpayer on the appreciation value derived from the transfer of land use rights, buildings or other facilities on such land, after deducting the “deductible items” that include the following:

- payments made to acquire land use rights;
- costs and charges incurred in connection with the land development;
- construction costs and charges in the case of newly constructed buildings and facilities;
- assessed value in the case of old buildings and facilities;
- taxes paid or payable in connection with the transfer of the land use rights, buildings or other facilities on such land; and
- other items allowed by the Ministry of Finance.

The tax rate is progressive and ranges from 30 per cent. to 60 per cent. of the appreciation value as compared to the “deductible items” as follows:

<u>Appreciation value</u>	<u>LAT rate</u>
	(%)
Portion not exceeding 50 per cent. of deductible items	30
Portion over 50 per cent. but not more than 100 per cent. of deductible	40
Portion over 100 per cent. but not more than 200 per cent. of deductible	50
Portion over 200 per cent. of deductible items	60

Exemption from LAT is available to the following cases:

- Taxpayers constructing ordinary residential properties for sale (i.e. the residences built in accordance with the local standard for residential properties used by the general population, excluding deluxe apartments, villas, resorts and other high-end premises) where the appreciation amount does not exceed 20 per cent. of the sum of deductible items;
- Real estate taken over and repossessed according to laws due to the construction requirements of the state; and
- Due to redeployment of work or improvement of living standards, transfers by individuals of originally self-used residential properties, with five years or longer of self-used residence and with tax authorities' approval.

According to a notice issued by the Ministry of Finance in January 1995, the LAT regulation does not apply to the following transfers of land use rights:

- real estate transfer contracts executed before 1 January 1994; and
- first time transfers of land use rights or premises and buildings during the five years commencing on 1 January 1994 if the land grant contracts were executed or the development projects were approved before 1 January 1994 and the capital has been injected for the development in compliance with the relevant regulations.

After the enactment of the LAT regulations and the implementation rules in 1994 and 1995, respectively, due to the long period of time typically required for real estate developments and their transfers, many jurisdictions, while implementing these regulations and rules, did not require real estate development enterprises to declare and pay the LAT as they did other taxes. Therefore, in order to assist the local tax authorities in the collection of LAT, the Ministry of Finance, State Administration of Taxation, Ministry of Construction and State Land Administration Bureau separately and jointly issued several notices to reiterate that, after the assignments are signed, the taxpayers should declare the tax to the local tax authorities where the real estate is located, and pay the LAT in accordance with the amount as calculated by the tax authority and within the time period as required. For those who fail to acquire proof as regards the tax paid or the tax exemption from the tax authorities, the real estate administration authority will not process the relevant title change procedures, and will not issue the property ownership certificates.

The State Administration of Taxation issued a further notice in July 2002 to require local tax authorities to require prepayment of LAT on the basis of proceeds from pre-sale of real estate.

In December 2006, the State Administration of Taxation issued a Notice on the Administration of the Settlement of Land Appreciation Tax of Property Development Enterprises, which came into effect on 1 February 2007. The notice required settlement of LAT liabilities by real estate developers. Provincial tax authorities are given authority to formulate their implementation rules according to the notice and their local situation.

To further strengthen LAT collection, in May 2009, the State Administration of Taxation released the Rules on the Administration of the Settlement of Land Appreciation Tax, which came into force on 1 June 2009.

On 19 May 2010, the State Administration of Taxation promulgated the Notice on Issues Regarding Land Appreciation Tax Settlement (《關於土地增值稅清算有關問題的通知》), which provides further clarifications and guidelines on LAT settlement, revenue recognition, deductible expenses, timing of assessment and other related issues.

On 25 May 2010, the State Administration of Taxation issued the Notice on Strengthening the Collection of Land Appreciation Tax (《關於加強土地增值稅徵管工作的通知》), which provides for a minimum LAT prepayment rate at 2 per cent. for provinces in eastern China region, 1.5 per cent. for provinces in the central and north eastern China regions, and 1 per cent. for provinces in the western China region. The notice also delegates to the local tax authorities the authority to determine the applicable LAT prepayment rates based on the types of the properties in their respective regions.

On 20 June 2013, the State Administration of Taxation issued the Notice on Further Improving the Collection and Administration of Land Appreciation Tax (according to which, the State Administration of Taxation will continue to strengthen the administration over the LAT liquidation, to conduct strict examination of deductible items, to reduce approved collection items, and so forth.

Urban Land Use Tax

Pursuant to the PRC Interim Regulations on Land Use Tax in respect of Urban Land, promulgated by the State Council in September 1988, the land use tax in respect of urban land is levied according to the area of relevant land. The annual tax rate on urban land was between RMB0.2 and RMB10 per square metre. Amendments by the State Council in December 2006 and December 2013 and March 2019 changed the annual tax rate to between RMB0.6 and RMB30 per square metre of urban land. Foreign-invested enterprises are no longer exempted from the land use tax.

Buildings Tax

Under the PRC Interim Regulations on Buildings Tax, promulgated by the State Council in September 1986 and amended in January 2011, buildings tax applicable to domestic enterprises is 1.2 per cent. if it is calculated on the basis of the residual value of a building and 12 per cent. if it is calculated on the basis of the rental. On 27 January 2011, the governments of Shanghai and Chongqing respectively issued measures for implementing pilot individual property tax schemes, which became effective on 28 January 2011.

And according to the Notice on Issues Relating to Assessment of Buildings Tax against Foreign-invested Enterprises and Foreign Individuals, the foreign-invested enterprises, foreign enterprises and foreign individuals are to be levied the same as domestic enterprises.

Stamp Duty

Under the PRC Interim Regulations on Stamp Duty, promulgated by the State Council in August 1988 and amended in January 2011, for property transfer instruments, including those in respect of property ownership transfers, the duty rate is 0.05 per cent. of the amount stated therein; for permits and certificates relating to rights, including property ownership certificates and land use rights certificates, stamp duty is levied on an item-by-item basis of RMB5 per item.

Municipal Maintenance Tax

Under the PRC Interim Regulations on Municipal Maintenance Tax, promulgated by the State Council in 1985 and amended in 2011, which will be replaced by Municipal Maintenance Tax Law of the PRC from 1 September 2021, a taxpayer, whether an individual or otherwise, of product tax, value-added tax or business tax is required to pay municipal maintenance tax calculated on the basis of product tax, value-added tax and business tax. The tax rate is 7 per cent. for a taxpayer whose domicile is in an urban area, 5 per cent. for a taxpayer whose domicile is in a county or a town, and 1 per cent. for a taxpayer whose domicile is not in any urban area or county or town. According to the Circular Concerning Unification of Municipal Maintenance Tax and Education Surcharge for Foreign Investment and Domestic Enterprises and Individuals (《關於統一內外資企業和個人城市維護建設稅和教育費附加制度的通知》) issued by the State Council on 18 October 2010, the municipal maintenance tax is applicable to foreign invested enterprises, which came into effect from 1 December 2010. Pursuant to the Notice on Relevant Issues of Imposition of Municipal Maintenance and Education Surcharge on Foreign-invested Enterprises (《關於對外資企業徵收城市維護建設稅和教育費附加有關問題的通知》)

promulgated by the Ministry of Finance and the State Administration of Taxation in November 2010, foreign-invested enterprises must pay municipal maintenance tax on any value-added tax, consumption tax and business tax incurred on or after 1 December 2010. However, foreign-invested enterprises are exempted from municipal maintenance tax on any value-added tax, consumption tax and business tax incurred before 1 December 2010.

Education Surcharge

Under the Interim Provisions on Imposition of Education Surcharge, promulgated by the State Council in April 1986 and amended in June 1990, August 2005 and January 2011, any taxpayer, whether an individual or otherwise, of value-added tax, business tax or consumption tax is liable for an education surcharge, except as otherwise provided by the State Council. The Education Surcharge rate is 3 per cent. calculated on the basis of consumption tax, value-added tax and business tax. According to the Circular Concerning Unification of Municipal Maintenance Tax and Education Surcharge for Foreign Investment and Domestic Enterprises and Individuals (《關於統一內外資企業和個人城市維護建設稅和教育費附加制度的通知》) issued by the State Council on 18 October 2010, the education surcharge is applicable to foreign invested enterprises, which came into with effect from 1 December 2010.

Pursuant to the aforesaid Notice on Relevant Issues of Imposition of Municipal Maintenance and Education Surcharge on Foreign-invested Enterprises (《關於對外資企業徵收城市維護建設稅和教育費附加有關問題的通知》), foreign-invested enterprises must pay an education surcharge on any value-added tax, consumption tax and business tax incurred on or after 1 December 2010. However, foreign-invested enterprises are exempted from paying an education surcharge on any value-added tax, consumption tax and business tax incurred before 1 December 2010.

TAXATION

The following is a general description of certain tax considerations relating to the Notes. It is based on law and relevant interpretations thereof in effect as at the date of this Offering Circular, all of which are subject to change, and does not constitute legal or taxation advice. It does not purport to be a complete analysis of all tax considerations relating to the Notes. Prospective holders of Notes who are in any doubt as to their tax position or who may be subject to tax in any jurisdiction are advised to consult their own professional advisers.

CAYMAN ISLANDS

The Cayman Islands currently have no exchange control restrictions and no income, corporate or capital gains tax, estate duty, inheritance tax, gift tax or withholding tax applicable to the Issuer or any holder of Notes. Accordingly, payment of principal of (including any premium) and interest on, and any transfer of, the Notes will not be subject to taxation in the Cayman Islands, no Cayman Islands withholding tax will be required on such payments to any holder of a Note and gains derived from the sale of Notes will not be subject to Cayman Islands capital gains tax. The Cayman Islands are not party to any double taxation treaties that are applicable to any payments made to or by the Issuer.

No stamp duty is payable under the laws of the Cayman Islands in respect of the execution and issue of the Notes. However an instrument of transfer in respect of a Note is stampable if executed in or brought into the Cayman Islands.

PRC

The following summary accurately describes the principal PRC tax consequences of ownership of the Notes by beneficial owners who, or which, are not residents of Mainland China for PRC tax purposes. These beneficial owners are referred to as (a) non-PRC Noteholders, or (b) beneficial owners who are entities or individuals located outside of the PRC in this “Taxation – PRC” section. In considering whether to invest in the Notes, investors should consult their individual tax advisers with regard to the application of PRC tax laws to their particular situations as well as any tax consequences arising under the laws of any other tax jurisdiction. Reference is made to PRC taxes from the taxable year beginning on or after 1 January 2008.

Income Tax

Pursuant to the EIT Law and its implementation regulations and Individual Income Tax Law of the PRC, which was amended on 31 August 2018 and took effect on 1 January 2019 and its implementation regulations, an income tax is imposed on payment of interest by way of withholding in respect of debt securities, issued by PRC enterprises to non-PRC Noteholders, including non-PRC resident enterprises and non-PRC resident individuals. The current rates of such income tax are 10 per cent. for non-PRC resident enterprises and 20 per cent. for non-PRC resident individuals.

Pursuant to the EIT Law and its implementation regulations, an enterprise established under the laws of foreign countries and regions (including Hong Kong, Macau and Taiwan) with “de facto management bodies” within the territory of the PRC is considered a “PRC tax resident enterprise” for PRC enterprise income tax purposes and must pay PRC enterprise income tax at the rate of 25 per cent., in respect of their taxable income. If relevant PRC tax authorities decide, in accordance with applicable tax rules and regulations, that the “de facto management body” of the Issuer is within the territory of the PRC, the Issuer may be held to be a PRC tax resident enterprise for the purpose of the EIT Law and be subject to PRC enterprise income tax at the rate of 25 per cent., on its taxable income.

As confirmed by the Issuer, as at the date of this Offering Circular, the Issuer has not been given notice or informed by the PRC tax authorities that it is considered as a PRC tax resident enterprise for the purpose of the EIT Law.

However, there is no assurance that the Issuer will not be treated as a PRC resident enterprise under the EIT Law and related implementation regulation in the future. Pursuant to the EIT Law and its implementation regulations, any non-resident enterprise without an establishment within the PRC or whose income has no connection to its establishment inside the PRC must pay enterprise income tax on income sourced within the PRC, and such income tax must be withheld at source by the PRC payer acting as a withholding agent, who must withhold the tax amount from each payment. Accordingly, in the event the Issuer or the Guarantor is deemed to be a PRC tax resident enterprise by the PRC tax authorities in the future, the Issuer or the Guarantor may be required to withhold income tax from the payments of interest in respect of the Notes to any non-PRC Noteholder, and gain from the disposition of the Notes may be subject to PRC tax, if the income or gain is treated as PRC-source. The tax rate is generally 10 per cent., for non-resident enterprise Noteholders without an establishment within the PRC or whose incomes have no connection to its establishment inside the PRC and 20 per cent., for non-resident individuals, unless a lower rate is available under an applicable tax treaty.

In addition, if the Guarantor is regarded as a PRC tax resident enterprise, in the event that the Guarantor is required to discharge its obligations under the Guarantee, the Guarantor will be obliged to withhold PRC enterprise income tax at the rate up to 10 per cent., subject to the application of any relevant income tax treaty that the PRC has entered into, on the payments of interest made by it under the Guarantee to non-PRC resident enterprise Noteholders as such interest payment obligations will be regarded as being derived from sources within the PRC. To the extent that the PRC 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 non-PRC resident enterprise Noteholders. Nevertheless, repayment of the principal will not be subject to PRC withholding tax.

Non-PRC resident Noteholders will not be subject to the PRC tax on any capital gains derived from a sale or exchange of Notes consummated outside Mainland China between non-PRC Noteholders, except however, if the Issuer is treated as a PRC tax resident enterprise under the EIT Law and related implementation regulations in the future, any gain realised by the non-PRC enterprise Noteholders from the transfer of the Notes may be regarded as being derived from sources within the PRC and accordingly would be subject to PRC withholding tax at a rate of up to 10 per cent., subject to the application of any relevant income tax treaty that the PRC has entered into.

Value-add Tax (“VAT”)

On 23 March 2016, the Ministry of Finance and the SAT issued the Circular on Comprehensively Promoting the Pilot Program of the Collection of Value-added Tax in Lieu of Business Tax (關於全面推開營業稅改徵增值稅試點的通知)(the “Circular 36”) which confirms that business tax will be completely replaced by VAT from 1 May 2016. Since then, the income derived from the provision of financial services which attracted business tax will be entirely replaced by, and subject to, VAT.

According to Circular 36, the entities and individuals providing the services within China shall be subject to VAT. The services are treated as being provided within China where either the service provider or the service recipient is located in China. The services subject to VAT include the provision of financial services such as the provision of loans. It is further clarified under Circular 36 that the “loans” refers to the activity of lending capital for another’s use and receiving the interest income thereon. Although the issuance of the Notes is likely to be treated as financial services for VAT purposes, Circular 36 stipulates that services are treated as being provided within the PRC where either the service provider or the service recipient is located in the PRC. In connection with the issue of the Notes, none of the Issuer or the Noteholders is located in the PRC. There is no assurance that the issuance of the Notes will not be treated as financial services for VAT purpose. If the issuance of Notes is treated as the Noteholders providing financing services within the PRC by the relevant tax authorities, the holders of the Notes shall be subject to VAT at the rate of 6 per cent. when receiving the interest payments under the Notes. In addition, the holders of the Notes shall be subject to the local levies generally at approximately 12 per cent. of the VAT payment and consequently, the combined rate of

VAT and local levies would be generally around 6.72 per cent. Given that the Issuer or the Guarantor (if the Guarantor is required to discharge its obligations under the Guarantee) pays interest income to Noteholders who are located outside of the PRC, the Issuer or the Guarantor acting as the obligatory withholder in accordance with applicable law, shall withhold VAT and local levies from the payment of interest income to Noteholders who are located outside of the PRC.

Where a holder of the Notes who is an entity or individual located outside of the PRC resells the Notes to an entity or individual located outside of the PRC and derives any gain, since neither the service provider nor the service recipient is located in the PRC, theoretically Circular 36 does not apply to any transfer of the Notes. However, there is uncertainty as to the applicability of VAT if either the seller or buyer of Notes is located inside the PRC.

Stamp Duty

No PRC stamp duty will be imposed on non-PRC Noteholders either upon issuance of the Notes or upon a subsequent transfer of Notes to the extent that the register of holders of the Notes is maintained outside the PRC and the issuance and the sale of the Notes is made outside of the PRC.

HONG KONG

Withholding Tax

No withholding tax is payable in Hong Kong in respect of payments of principal or interest on the Notes or in respect of any capital gains arising from the sale of the Notes.

Profits Tax

Hong Kong profits tax is chargeable on every person carrying on a trade, profession or business in Hong Kong in respect of profits arising in or derived from Hong Kong from such trade, profession or business (excluding profits arising from the sale of capital assets).

Interest on the Notes may be deemed to be profits arising in or derived from Hong Kong from a trade, profession or business carried on in Hong Kong in the following circumstances:

- (a) interest on the Notes is derived from Hong Kong and is received by or accrues to a corporation carrying on a trade, profession or business in Hong Kong;
- (b) interest on the Notes is derived from Hong Kong and is received by or accrues to a person, other than a corporation, carrying on a trade, profession or business in Hong Kong and is in respect of the funds of that trade, profession or business;
- (c) interest on the Notes is received by or accrues to a financial institution (as defined in the Inland Revenue Ordinance (Cap. 112) of Hong Kong (the “**IRO**”)) and arises through or from the carrying on by the financial institution of its business in Hong Kong; or
- (d) interest on the Notes is received by or accrues to a corporation, other than a financial institution, and arises through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the IRO).

Sums received by or accrued to a financial institution by way of gains or profits arising through or from the carrying on by the financial institution of its business in Hong Kong from the sale, disposal and redemption of Notes will be subject to Hong Kong profits tax. Sums received by or accrued to a corporation, other than a financial institution, by way of gains or profits arising through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the IRO) from the sale, disposal or other redemption of Notes will be subject to Hong Kong profits tax.

Sums derived from the sale, disposal or redemption of Notes will be subject to Hong Kong profits tax where received by or accrued to a person, other than a financial institution, who carries on a trade, profession or business in Hong Kong and the sum has a Hong Kong source unless otherwise exempted. The source of such sums will generally be determined by having regard to the manner in which the Notes are acquired and disposed of.

In certain circumstances, Hong Kong profits tax exemptions (such as concessionary tax rates) may be available. Investors are advised to consult their own tax advisors to ascertain the applicability of any exemptions to their individual position.

Stamp Duty

No Hong Kong stamp duty will be chargeable upon the issue or transfer of a Note.

FATCA

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a “foreign financial institution” may be required to withhold on certain payments it makes (“**foreign passthru payments**”) to persons that fail to meet certain certification, reporting, or related requirements. The issuer may be a foreign financial institution for these purposes. A number of jurisdictions (including Cayman Islands, Hong Kong and the PRC) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (“**IGAs**”), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply prior to the date that is two years after the date on which final regulations defining foreign passthru payments are published in the U.S. Federal Register, and Notes characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal tax purposes that are issued on or prior to the date that is six months after the date on which final regulations defining “foreign passthru payments” are filed with the U.S. Federal Register generally would be “grandfathered” for purposes of FATCA withholding unless materially modified after such date (including by reason of a substitution of the issuer). However, if additional notes (as described under See “*Terms and Conditions of the Notes – Further Issues*”) that are not distinguishable from previously issued Notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Notes, including the Notes offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Notes.

EU

The Proposed Financial Transactions Tax (“FTT”)

The European Commission has published a proposal for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the “**participating Member States**”). The Proposed FTT has very broad scope and could, if introduced in its current form, apply to certain transactions relating to the Notes (including secondary market transactions) in certain circumstances.

Under current proposals the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain transactions relating to the notes where at least one party is a financial institution (as defined), and at least one party is established in a participating Member State. A party may be deemed to be “established” in a

participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is the subject of the transaction is issued in a participating Member State.

The FTT proposal remains subject to negotiation between the participating Member States and is the subject of legal challenge. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate. Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

SUBSCRIPTION AND SALE

The Issuer and the Guarantor have entered into a subscription agreement with BOCI Asia Limited, China International Capital Corporation Hong Kong Securities Limited, CLSA Limited, DBS Bank Ltd., Mizuho Securities Asia Limited, BOCOM International Securities Limited, China Construction Bank (Asia) Corporation Limited, CMBC Securities Company Limited, ICBC International Securities Limited, Shanghai Pudong Development Bank Co., Ltd., Hong Kong Branch and SMBC Nikko Capital Markets Limited as the Joint Lead Managers dated 2 February 2021 (the “**Subscription Agreement**”) pursuant to which, and subject to certain conditions contained in the Subscription Agreement, the Issuer has agreed to sell to the Joint Lead Managers, the Guarantor has agreed to guarantee, and the Joint Lead Managers have agreed to severally, but not jointly, subscribe and pay for the aggregate principal amount of the Notes set forth opposite its name below:

Joint Lead Manager	Principal amount of the Notes to be subscribed
	(US\$)
BOCI Asia Limited	108,000,000
China International Capital Corporation Hong Kong Securities Limited	108,000,000
CLSA Limited	108,000,000
DBS Bank Ltd.	108,000,000
Mizuho Securities Asia Limited	20,000,000
BOCOM International Securities Limited	10,000,000
China Construction Bank (Asia) Corporation Limited	10,000,000
CMBC Securities Company Limited	10,000,000
ICBC International Securities Limited	10,000,000
Shanghai Pudong Development Bank Co., Ltd., Hong Kong Branch	10,000,000
SMBC Nikko Capital Markets Limited	10,000,000
Total	512,000,000

The Subscription Agreement provides that the Issuer and the Guarantor will jointly and severally indemnify the Joint Lead Managers and their respective representatives, directors, officers, employees or agents against certain loss incurred arising out of, in relation to or in connection with the offer and sale of the Notes. The Subscription Agreement provides that the obligations of the Joint Lead Managers are subject to certain conditions precedent and entitles the Joint Lead Managers to terminate it in certain circumstances prior to payment being made to the Issuer.

The Issuer (failing whom the Guarantor) will pay the Joint Lead Manager customary selling, management and underwriting commissions in connection with the offering and will reimburse the Joint Lead Managers for certain fees and expenses incurred in connection with the offering.

In connection with the issue of the Notes, the Stabilisation Manager or any person acting on behalf of the Stabilisation Manager may, to the extent permitted by applicable laws and directives, over-allot the Notes or effect transactions with a view to supporting the price of the Notes at a level higher than that which might otherwise prevail, but in so doing, the Stabilisation Manager or any person acting on behalf of the Stabilisation Manager shall act as principal and not as agent of the Issuer or the Guarantor. However, there is no assurance that the Stabilisation Manager or any person acting on behalf of the Stabilisation Manager will undertake Stabilisation action. Any loss or profit sustained as a consequence of any such over-allotment or stabilisation shall be for the account of the Joint Lead Managers.

The Joint Lead Managers and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities (“**Banking Services or Transactions**”). The Joint Lead Managers and their respective affiliates may have, from time to time, performed, and may in the future perform, various Banking Services or Transactions with the Issuer and the Guarantor for which they have received, or will receive, fees and expenses.

In connection with the offering of the Notes, the Joint Lead Managers and/or their respective affiliates, or affiliates of the Issuer or the Guarantor, may act as investors and place orders, receive allocations and trade the Notes for their own account and such orders, allocations or trading of the Notes may be material. Such entities may hold or sell such Notes or purchase further Notes for their own account in the secondary market or deal in any other securities of the Issuer or the Guarantor, and therefore, they may offer or sell the Notes or other securities otherwise than in connection with the offering of the Notes. Accordingly, references herein to the offering of the Notes should be read as including any offering of the Notes to the Joint Lead Managers and/or their respective affiliates, or affiliates of the Issuer or the Guarantor as investors for their own account. Such entities are not expected to disclose such transactions or the extent of any such investment, otherwise than in accordance with any applicable legal or regulatory requirements. If such transactions occur, the trading price and liquidity of the Notes may be impacted.

Furthermore, it is possible that a significant proportion of the Notes may be initially allocated to, and subsequently held by, a limited number of investors. If this is the case, the trading price and liquidity of trading in the Notes may be constrained. The Issuer, the Guarantor and the Joint Lead Managers are under no obligation to disclose the extent of the distribution of the Notes amongst individual investors, otherwise than in accordance with any applicable legal or regulatory requirements.

In the ordinary course of their various business activities, the Joint Lead Managers and their respective affiliates make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Issuer and/or the Guarantor, including the Notes and could adversely affect the trading price and liquidity of the Notes. The Joint Lead Managers and their affiliates may make investment recommendations and/or publish or express independent research views (positive or negative) in respect of the Notes or other financial instruments of the Issuer or the Guarantor, and may recommend to their clients that they acquire long and/or short positions in the Notes or other financial instruments of the Issuer or the Guarantor.

GENERAL

The distribution of this Offering Circular or any offering material and the offering, sale or delivery of the Notes is restricted by law in certain jurisdictions. Therefore, persons who may come into possession of this Offering Circular or any offering material are advised to consult with their own legal advisers as to what restrictions may be applicable to them and to observe such restrictions. This Offering Circular may not be used for the purpose of an offer or invitation in any circumstances in which such offer or invitation is not authorised. No action has been taken or will be taken in any jurisdiction that would permit a public offering of the Notes, or possession or distribution of this Offering Circular or any amendment or supplement thereto or any other offering or publicity material relating to the Notes, in any country or jurisdiction where action for that purpose is required.

United States

The Notes and the Guarantee have not been and will not be registered under the Securities Act, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

Each Joint Lead Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer or sell the Notes and the Guarantee (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells the Notes and the Guarantee during the distribution compliance period a

confirmation or other notice setting forth the restrictions on offers and sales of the Notes and the Guarantee within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S.

The Notes and the Guarantee are being offered and sold outside of the United States to non-U.S. persons in reliance on Regulation S.

In addition, until 40 days after the commencement of the offering of the Notes and the Guarantee, an offer or sale of the Notes and the Guarantee within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

Prohibition of Sales to EEA Retail Investors

Each Joint Lead 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 which are the subject of the offering contemplated by this Offering Circular in relation thereto 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:

- (a) a retail client as defined in MiFID II; or
- (b) a customer within the meaning of 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.

Prohibition of Sales to UK Retail Investors

Each Joint Lead 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 which are the subject of the offering contemplated by this Offering Circular in relation thereto to any retail investor in the United Kingdom. For the purposes of this provision, the expression “**retail investor**” means a person who is one (or more) of the following:

- (a) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the EUWA; or
- (b) 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.

United Kingdom

Each Joint Lead Manager 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 FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Guarantee; 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 the Notes in, from or otherwise involving the United Kingdom.

Hong Kong

Each Joint Lead Manager 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 (a) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the “SFO”) and any rules made under the SFO; or (b) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the “C(WUMP)O”) or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and
- (b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the SFO and any rules made under the SFO.

The PRC

Each Joint Lead Manager has represented and agreed that the Notes are not being offered or sold and may not be offered or sold, directly or indirectly, in the PRC (for such purposes, not including the Hong Kong and Macau Special Administrative Regions or Taiwan), except as permitted by applicable laws of the PRC.

Cayman Islands

Each Joint Lead Manager has represented, warranted and agreed that it has not made and will not make any invitation, whether directly or indirectly, to the public in the Cayman Islands to offer or sell the Notes.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the “**Financial Instruments and Exchange Act**”) Accordingly, each Joint Lead Manager has represented and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan.

Singapore

Each Joint Lead Manager has acknowledged that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Joint Lead Manager has represented and agreed that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the “SFA”)) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in

Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

- (1) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (2) where no consideration is or will be given for the transfer;
- (3) where the transfer is by operation of law;
- (4) as specified in Section 276(7) of the SFA; or
- (5) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

Singapore SFA Product Classification: In connection with Section 309B of the SFA and the CMP Regulations 2018, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are 'prescribed capital markets products' (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

GENERAL INFORMATION

1 CLEARING SYSTEMS

The Notes have been accepted for clearance through Euroclear and Clearstream under Common Code number 229598341 and the Notes' International Securities Identification Number is XS2295983410. The Legal Entity Identifier (LEI) code of the Issuer is 3003005OKQY2HXXJXJ29.

2 LISTING OF THE NOTES

Application has been 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. It is expected that dealing in, and listing of, the Notes on the Hong Kong Stock Exchange will commence on 10 February 2021.

3 AUTHORISATIONS

Each of the Issuer and the Guarantor has obtained all necessary consents, approvals and authorisations in connection with the issue and performance of their obligations under the Notes, the Guarantee, the Trust Deed and the Agency Agreement. The issue of the Notes and the giving of the Guarantee have been approved and authorised by written resolutions of the Board of Directors of the Guarantor passed on 28 January 2021 and meeting of its Executive Committee held on 29 January 2021, and written resolutions of the Board of Directors of the Issuer passed on 29 January 2021.

4 NO MATERIAL ADVERSE CHANGE

Except as disclosed in this Offering Circular, there has been no material adverse change in the financial or trading position or prospects of the Guarantor or the Group since 31 December 2019 nor, of the Issuer since its date of incorporation.

5 LITIGATION

None of the Issuer, the Guarantor or any of its subsidiaries is involved in any litigation or arbitration proceedings that the Issuer and the Guarantor believe are material in the context of the Notes nor are the Issuer and the Guarantor aware that any such proceedings are pending or threatened.

6 AVAILABLE DOCUMENTS

Copies of the Guarantor's annual reports for the years ended 31 December 2018 and 2019, the Trust Deed, and the Agency Agreement relating to the Notes and the Memorandum and Articles of Association of the Issuer and the Articles of Association of the Guarantor will be available for inspection by Noteholders from the Issue Date at the principal office of the Guarantor at Suites 701-702, 7/F, Three Pacific Place, 1 Queen's Road East, Hong Kong and at the specified office of the Trustee at all reasonable times during normal business hours upon prior written request and proof of holding to the satisfaction of the Guarantor and the Trustee (as the case may be), so long as any of the Notes is outstanding.

The Guarantor prepares and publishes an annual report every year and an interim report semi-annually. Copies of the Guarantor's annual report in respect of the latest year can be obtained from the Guarantor's corporate website.

7 AUDITOR

The Group's Financial Statements, which are included elsewhere in this Offering Circular, have been audited by BDO Limited, Certified Public Accountants, as stated in their report appearing herein.

8 ISSUER'S ACCOUNTS

Under Cayman Islands law, the Issuer is not required to publish interim or annual accounts. The Issuer has not published, and does not propose to publish, any of its accounts. The Issuer is, however, required to keep proper books of account as are necessary to give a true and fair view of the state of the Issuer's affairs and to explain its transactions.

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Notes:

- (1) The consolidated financial statements of the Guarantor set out herein are derived from the Guarantor's annual report for the year ended 31 December 2018. Page references included in the audited consolidated financial statements as at and for the year ended 31 December 2018 set out herein refer to pages set out in such annual report.
- (2) The consolidated financial statements of the Guarantor set out herein are derived from the Guarantor's annual report for the year ended 31 December 2019. Page references included in the audited consolidated financial statements as at and for the year ended 31 December 2019 set out herein refer to pages set out in such annual report.

Independent Auditor's Report



Tel : +852 2218 8288
Fax: +852 2815 2239
www.bdo.com.hk

25th Floor Wing On Centre
111 Connaught Road Central
Hong Kong

電話 : +852 2218 8288
傳真 : +852 2815 2239
www.bdo.com.hk

香港干諾道中111號
永安中心25樓

To the members of China Overseas Grand Oceans Group Limited

中國海外宏洋集團有限公司

(incorporated in Hong Kong with limited liability)

OPINION

We have audited the consolidated financial statements of China Overseas Grand Oceans Group Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 68 to pages 187, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the 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 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the HKICPA's "Code of Ethics for Professional Accountants" (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. 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.

BDO Limited
香港立信德豪會計師事務所有限公司

BDO Limited, a Hong Kong limited company, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

Independent Auditor's Report (*continued*)

KEY AUDIT MATTERS (CONTINUED)

Determining net realisable value of inventories of properties

Refer to notes 4.1(b) and 22 in the consolidated financial statements

The carrying value of the Group's inventories of properties as at 31 December 2018 was HK\$67,682,662,000.

Inventories of properties are stated at the lower of cost and net realisable value. In assessing net realisable value, management has to determine the selling prices of inventories of properties which is based on management's judgment and expectation of property market in Mainland China. Future selling prices could fluctuate significantly subject to factors including government measures on controlling property market and policies such as urbanization policy and monetary policy. In addition, due to the unique nature of individual properties, estimation of selling prices is highly subjective which requires management's judgment on customer preferences.

We have identified the determination of net realisable value of inventories of properties as key audit matter due to considerable amount of estimation and judgment applied by the management, and difficulty in reliably gauging the impact arising from government's measures and policies which have direct impact on the property market in Mainland China and are prevailing at year end.

Our procedures in relation to management's assessment of the net realisable value of the inventories of properties mainly included:

- Assessing the reasonableness of management's estimates of net realisable value based on our knowledge of the business and industry, taking into account recent developments in the property market in Mainland China as supported by recent sales transactions.
- Checking the accuracy and relevance of market data such as market prices of comparable properties provided by management.
- Independently assessing management's judgment in estimating the impact of those government measures and policies on the selling prices of properties.
- Assessing whether there is evidence of management bias on determining net realisable value by considering the consistency of judgment made by the management year on year through discussion with the management to understand their rationale.
- Challenging the estimations and assumptions used by the management by assessing the reliability of management's past estimates.

Independent Auditor's Report (*continued*)

KEY AUDIT MATTERS (CONTINUED)

Recognition of revenue from sales of properties

Refer to notes 2.1, 3.17A(i), 4.2(a) and 5 in the consolidated financial statements

The Group has applied HKFRS 15 *Revenue from Contracts with Customers* ("HKFRS 15") on 1 January 2018 and the key changes arising from HKFRS 15 are that revenue from sales of properties is recognized when control of the property unit is transferred to the customer.

Revenue from sales of properties is recognized over time when the Group's performance under a sales contract does not create an asset with an alternative use to the Group and the Group has enforceable right to payment for performance completed to date; otherwise, revenue from sales of properties is recognized at a point in time when the customer obtains control of the completed property. For the year ended 31 December 2018, the Group recognized revenue from sales of properties amounting to HK\$25,274,071,000, of which HK\$4,255,652,000 was recognized over time.

The Group is contractually restricted from changing or substituting the property unit or redirecting the property unit for another use based on the terms of the sales contract and therefore the property unit does not have an alternative use to the Group. However, whether the Group has an enforceable right to payment from the customer for performance completed to date depends on the terms of the sales contract and the interpretation of the applicable laws that apply to the contract. Such determination requires significant judgment. Management uses judgment, with reference to a legal advice, to classify the sales contracts into those with enforceable right to repayment and those without the right.

When the properties have no alternative use to the Group and the Group has an enforceable right to payment from the customers for performance completed to date, the Group recognizes revenue from sales of properties over time using input method, which is determined with reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. The Group estimates the development cost of each project based on the development plan as well as contractor fee and construction material price lists, taking into account economic factors. The Group allocates the development cost of the property project to each property unit based on types of properties, gross and saleable floor area and other relevant factors.

We have identified the recognition of revenue from sales of properties as key audit matter due to significant judgment applied by the management in assessing whether the Group has the enforceable right to payment in the sales contracts with revenue being recognized over time. In addition, significant judgment and estimations are required in determining the estimated development costs and assessing the progress towards complete satisfaction of the performance obligation at the end of the reporting period.

Independent Auditor's Report (*continued*)

KEY AUDIT MATTERS (CONTINUED)

Recognition of revenue from sales of properties (Continued)

Our procedures in relation to management's assessment of whether the Group has an enforceable right to payment in the sales contracts mainly included:

- Obtaining an understanding regarding management's assessment in identifying sales contracts with or without the enforceable right to payment and evaluating the appropriateness of management's assessment;
- Reviewing the terms of sales contracts, on a sample basis, to assess if the Group has the enforceable right to payment based on the contract terms;
- Reviewing the legal advice provided by the Group's legal advisor, including the legal advisor's interpretation of the applicable laws and the implication on the assessment of the enforceability of the right to payment; and
- Assessing the competency, experience and objectivity of the legal advisor engaged by the Group.

Our procedures in relation to management's estimates of the total development costs of the property projects and the progress towards complete satisfaction of the performance obligation mainly included:

- Understanding the procedures and relevant controls of the Group in preparing and updating the cost budget for property projects and recording contract costs incurred;
- Comparing the budgeted cost to budget approved by management;
- Testing the budgeted cost, on a sample basis, to respective contracts and underlying supporting documents;
- Testing contract costs incurred to date and estimated total costs, on a sample basis, to underlying supporting documents and the reports from external supervisor, where applicable;
- Assessing the reasonableness of the basis of cost allocation;
- Assessing the reliability of cost budgets by comparing actual development costs against budgeted costs of completed property; and
- Checking the cost allocation, the calculation of progress towards complete satisfaction of the performance obligation of the property unit and the amount of revenue from sales of properties under "over time" basis.

Independent Auditor's Report (*continued*)

OTHER INFORMATION IN THE ANNUAL REPORT

The directors are responsible for the other information. The other information comprises the information included in the Company's 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.

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are also responsible for overseeing the Group's financial reporting process. The Audit Committee assists the directors in discharging their responsibilities in this regard.

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. This report is made solely to you, as a body, in accordance with Section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Independent Auditor's Report (*continued*)

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

As part of an audit in accordance with HKSAs, 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.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Independent Auditor's Report (*continued*)

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, 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.

BDO Limited

Certified Public Accountants

Lam Hung Yun, Andrew

Practising Certificate no. P04092

Hong Kong, 20 March 2019

Consolidated Income Statement

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 HK\$'000	2017 HK\$'000
Revenue	5	25,571,306	20,277,831
Cost of sales and services provided		(18,133,573)	(16,209,323)
Gross profit		7,437,733	4,068,508
Other income	7	437,757	198,629
Distribution and selling expenses		(841,138)	(675,762)
Administrative expenses		(722,233)	(610,130)
Other operating expenses		(160,334)	(7,704)
Other gains or losses			
Fair value gain on investment properties	14(b)	–	191,830
Gain on disposal of investment properties	14(a)	2,173	542
Change in fair value of a derivative financial instrument	21	2,493	1,974
Write-off of available-for-sale financial assets	20	–	(535)
Operating profit		6,156,451	3,167,352
Finance costs	9	(92,266)	(32,500)
Share of results of associates		12,239	57,153
Share of results of joint ventures		266,127	(9,854)
Profit before income tax	8	6,342,551	3,182,151
Income tax expense	10	(3,841,015)	(1,920,417)
Profit for the year		2,501,536	1,261,734
Profit/(Loss) for the year attributable to:			
Owners of the Company		2,427,326	1,271,398
Non-controlling interests		74,210	(9,664)
		2,501,536	1,261,734
		HK Cents	HK Cents (Restated)
Earnings per share	12		
Basic		73.1	53.6
Diluted		73.1	53.6

Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 HK\$'000	2017 HK\$'000
Profit for the year	2,501,536	1,261,734
Other comprehensive income		
<i>Items that may be reclassified subsequently to profit or loss</i>		
Exchange differences arising from translation of overseas operations		
— subsidiaries	(1,518,807)	2,070,009
— associates	3,275	6,923
— joint ventures	(31,751)	27,897
Other comprehensive income for the year, net of tax	(1,547,283)	2,104,829
Total comprehensive income for the year	954,253	3,366,563
Total comprehensive income attributable to:		
Owners of the Company	919,894	3,323,682
Non-controlling interests	34,359	42,881
	954,253	3,366,563

Consolidated Statement of Financial Position

AS AT 31 DECEMBER 2018

	Notes	2018 HK\$'000	2017 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties	14	2,667,576	2,835,203
Property, plant and equipment	15	1,164,785	1,187,437
Prepaid lease rental on land	16	301,287	325,367
Intangible assets	17	3,319	8,117
Interests in associates	18	26,983	135,907
Interests in joint ventures	19	697,439	449,129
Amount due from a joint venture	27	–	305,057
Financial assets at fair value through other comprehensive income	20	1,141	–
Available-for-sale financial assets	20	–	1,196
A derivative financial instrument	21	4,467	1,974
Deferred tax assets	35	184,150	345,958
		5,051,147	5,595,345
Current assets			
Inventories of properties	22	67,682,662	54,414,394
Other inventories	23	1,861	2,060
Contract assets	24	15,986	–
Trade and other receivables, prepayments and deposits	25	10,151,731	9,795,746
Prepaid lease rental on land	16	9,122	9,562
Amount due from an associate	26	68,108	68,094
Amount due from a joint venture	27	291,032	–
Amounts due from non-controlling interests	28	465,936	353,678
Tax prepaid		1,267,506	1,382,614
Restricted cash and deposits	29	7,902,629	7,553,007
Cash and bank balances	29	25,361,554	16,149,246
		113,218,127	89,728,401
Current liabilities			
Trade and other payables	30	10,821,294	9,639,438
Contract liabilities	31	43,282,504	–
Sales deposits received	31	–	30,820,778
Amounts due to associates	26	26,631	176,876
Amounts due to joint ventures	27	1,345,871	1,234,203
Amounts due to non-controlling interests	28	2,333,114	613,424
Amounts due to related companies	32	346,229	4,852,569
Guaranteed notes payable	34	3,211,357	–
Taxation liabilities		3,463,225	2,276,077
Borrowings	33	6,260,146	4,911,049
		71,090,371	54,524,414
Net current assets		42,127,756	35,203,987
Total assets less current liabilities		47,178,903	40,799,332

Consolidated Statement of Financial Position (*continued*)

AS AT 31 DECEMBER 2018

	Notes	2018 HK\$'000	2017 HK\$'000
Non-current liabilities			
Borrowings	33	19,271,087	19,300,789
Guaranteed notes payable	34	3,924,376	3,159,180
Amount due to a related company	32	85,627	89,754
Deferred tax liabilities	35	3,619,231	3,786,595
		26,900,321	26,336,318
Net assets			
		20,278,582	14,463,014
CAPITAL AND RESERVES			
Share capital	36	6,751,682	2,144,018
Other reserves	37	(549,428)	788,971
Retained profits	37	12,862,509	10,641,452
Proposed dividend	11(a)	383,416	102,701
Equity attributable to owners of the Company		19,448,179	13,677,142
Non-controlling interests	38	830,403	785,872
Total equity		20,278,582	14,463,014

On behalf of the directors

Zhang Guiqing
Director

Wang Man Kwan, Paul
Director

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2018

	Attributable to owners of the Company								
	Share capital	Translation reserve*	Assets			Retained profits	Total	Non-controlling interests	Total equity
			revaluation reserve*	Statutory reserve*					
HK\$'000 (note 36)	HK\$'000 (note 37)	HK\$'000 (note 37)	HK\$'000 (note 37)	HK\$'000 (note 37)	HK\$'000 (note 37)	HK\$'000	HK\$'000 (note 38)	HK\$'000	
At 1 January 2017	2,144,018	(2,425,563)	31,749	890,558	9,781,165	10,421,927	763,373	11,185,300	
Profit/(Loss) for the year	-	-	-	-	1,271,398	1,271,398	(9,664)	1,261,734	
Exchange differences arising from translation of overseas operations									
— subsidiaries	-	2,017,464	-	-	-	2,017,464	52,545	2,070,009	
— associates	-	6,923	-	-	-	6,923	-	6,923	
— joint ventures	-	27,897	-	-	-	27,897	-	27,897	
Total comprehensive income for the year	-	2,052,284	-	-	1,271,398	3,323,682	42,881	3,366,563	
Transfer to PRC statutory reserve	-	-	-	239,943	(239,943)	-	-	-	
2017 interim dividend paid (note 11(a))	-	-	-	-	(22,822)	(22,822)	-	(22,822)	
2016 final dividend paid (note 11(b))	-	-	-	-	(45,645)	(45,645)	-	(45,645)	
Dividends attributable to non-controlling interests (note 28)	-	-	-	-	-	-	(25,015)	(25,015)	
Contributions from non-controlling interests	-	-	-	-	-	-	4,633	4,633	
Transactions with owners	-	-	-	-	(68,467)	(68,467)	(20,382)	(88,849)	
At 31 December 2017	2,144,018	(373,279)	31,749	1,130,501	10,744,153	13,677,142	785,872	14,463,014	
At 1 January 2018 as originally presented	2,144,018	(373,279)	31,749	1,130,501	10,744,153	13,677,142	785,872	14,463,014	
Adjustment on initial adoption of HKFRS 15 (note 2.1)	-	16,177	-	-	432,704	448,881	17,476	466,357	
Restated balance as at 1 January 2018	2,144,018	(357,102)	31,749	1,130,501	11,176,857	14,126,023	803,348	14,929,371	
Profit for the year	-	-	-	-	2,427,326	2,427,326	74,210	2,501,536	
Exchange differences arising from translation of overseas operations									
— subsidiaries	-	(1,478,956)	-	-	-	(1,478,956)	(39,851)	(1,518,807)	
— associates	-	3,275	-	-	-	3,275	-	3,275	
— joint ventures	-	(31,751)	-	-	-	(31,751)	-	(31,751)	
Total comprehensive income for the year	-	(1,507,432)	-	-	2,427,326	919,894	34,359	954,253	
Transfer to PRC statutory reserve	-	-	-	152,856	(152,856)	-	-	-	
Issue of shares by way of Rights Issue (note 36)	4,655,769	-	-	-	-	4,655,769	-	4,655,769	
Share issue expenses (note 36)	(48,105)	-	-	-	-	(48,105)	-	(48,105)	
2018 interim dividend paid (note 11(a))	-	-	-	-	(102,701)	(102,701)	-	(102,701)	
2017 final dividend paid (note 11(b))	-	-	-	-	(102,701)	(102,701)	-	(102,701)	
Contributions from non-controlling interests	-	-	-	-	-	-	61,174	61,174	
Return of capital to non-controlling interests	-	-	-	-	-	-	(68,478)	(68,478)	
Transactions with owners	4,607,664	-	-	-	(205,402)	4,402,262	(7,304)	4,394,958	
At 31 December 2018	6,751,682	(1,864,534)	31,749	1,283,357	13,245,925	19,448,179	830,403	20,278,582	

* The total of these equity accounts at the end of the reporting period represents "Other reserves" in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 HK\$'000	2017 HK\$'000
Operating activities			
Profit before income tax		6,342,551	3,182,151
Adjustments for:			
Share of results of associates		(12,239)	(57,153)
Share of results of joint ventures		(266,127)	9,854
Gain on disposal of investment properties		(2,173)	(542)
Gain on disposal of property, plant and equipment		(58)	(459)
Depreciation and amortization		54,827	54,807
Fair value gain on investment properties		–	(191,830)
Change in fair value of a derivative financial instrument		(2,493)	(1,974)
Write-off of property, plant and equipment		17	6,603
Write-off of available-for-sale financial assets		–	535
Interest income		(394,818)	(178,146)
Finance costs		92,266	32,500
Exchange difference		970	(38,147)
Operating cash flows before movements in working capital		5,812,723	2,818,199
Increase in inventories of properties		(16,553,177)	(771,147)
Decrease in other inventories		109	208
Increase in trade and other receivables, prepayments and deposits		(778,389)	(3,851,513)
Increase in contract assets		(9,556)	–
Increase in restricted cash and deposits		(725,387)	(1,444,700)
Increase/(Decrease) in trade and other payables		1,478,063	(1,389,431)
Increase in sales deposits received		–	9,386,473
Increase in contract liabilities		17,069,397	–
Cash generated from operations		6,293,783	4,748,089
Income taxes paid		(2,710,664)	(1,878,359)
Net cash from operating activities		3,583,119	2,869,730
Investing activities			
Purchase of property, plant and equipment	15	(73,875)	(236,730)
Acquisition of subsidiaries, net of cash acquired		–	(1,912,695)
Capital injection in a joint venture		–	(54,242)
Distribution from an investee	20	–	384
Proceeds from disposal of investment properties		40,977	22,953
Proceeds from disposal of property, plant and equipment		115	629
Interest received		339,039	178,160
Increase in amount due from an associate		(3,273)	(65,852)
Decrease in amount due from a joint venture		–	31,779
Increase in amounts due from non-controlling interests		(217,224)	(123,295)
Increase in short-term time deposits with maturity beyond three months but within one year		(3,025,523)	(9,376)
Net cash used in investing activities		(2,939,764)	(2,168,285)

Consolidated Statement of Cash Flows (*continued*)

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 HK\$'000	2017 HK\$'000
Financing activities	40(b)		
New borrowings		11,623,346	12,636,885
Repayment of borrowings		(9,637,682)	(8,914,795)
Net proceeds from issue of guaranteed notes		3,904,715	–
Share issue expenses		(48,105)	–
Proceeds from rights issue		4,655,769	–
Dividends paid		(205,402)	(68,467)
Finance costs paid		(1,346,565)	(1,287,687)
Advances from non-controlling interests		2,528,758	–
Repayments to non-controlling interests		(662,301)	(324,390)
Advances from associates		2,159	131,536
Repayments to associates		(30,972)	(153,858)
Advances from joint ventures		879,364	1,196,769
Repayments to joint ventures		(704,062)	(1,976)
Advances from related companies		3,996	–
Repayments to related companies		(4,471,384)	(3,981,523)
Contribution from non-controlling interests	40(a)	3,812	4,633
Net cash generated from/(used in) financing activities		6,495,446	(762,873)
Net increase/(decrease) in cash and cash equivalents		7,138,801	(61,428)
Cash and cash equivalents at 1 January		15,536,625	14,594,755
Effect of foreign exchange rate changes on cash and cash equivalents		(923,413)	1,003,298
Cash and cash equivalents at 31 December		21,752,013	15,536,625
Analysis of balances of cash and cash equivalents			
Cash and bank balances as stated in the consolidated statement of financial position		25,361,554	16,149,246
Less: Short-term time deposits with maturity beyond three months but within one year	29(c)	(3,609,541)	(612,621)
Cash and cash equivalents at 31 December		21,752,013	15,536,625

Notes to the Financial Statements

1. GENERAL INFORMATION

China Overseas Grand Oceans Group Limited (the “Company”) is a limited liability company incorporated in the Hong Kong Special Administrative Region (“Hong Kong”), the People’s Republic of China (the “PRC”) and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The address of the Company’s registered office and principal place of business is Suites 701–702, 7/F., Three Pacific Place, 1 Queen’s Road East, Hong Kong.

The principal activities of the Company and its subsidiaries (collectively, the “Group”) mainly comprise property investment and development, property leasing and investment holding.

The Group’s business activities are principally carried out in certain regions in the PRC such as Huizhou, Nantong, Ganzhou, Shantou, Nanning, Hefei, Yangzhou and Weifang.

The Company is an associated company of China Overseas Land & Investment Limited (“COLI”). COLI is a company incorporated in Hong Kong with limited liability and its shares are listed on the Stock Exchange. COLI’s ultimate holding company is 中國建築集團有限公司 China State Construction Engineering Corporation* (“CSCEC”), an entity established in the PRC.

The financial statements on pages 68 to 187 have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), Hong Kong Accounting Standards (“HKASs”) and Interpretations (hereinafter collectively referred to “HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the provisions of the Hong Kong Companies Ordinance which concern the preparation of financial statements. In addition, the financial statements include the applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”).

The financial statements for the year ended 31 December 2018 were approved and authorized for issue by the directors on 20 March 2019.

2. ADOPTION OF NEW OR REVISED HKFRSs

2.1 Adoption of new or revised HKFRSs — effective 1 January 2018

In the current year, the Group has applied for the first time the following new standards, amendments and interpretations issued by the HKICPA, which are relevant to and effective for the Group’s financial statements for the annual period beginning on 1 January 2018:

Annual improvements to HKFRSs 2014–2016 Cycle	Amendments to HKAS 28 Investment in Associates and Joint Ventures
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
Amendments to HKFRS 15	Revenue from Contracts with Customers (Clarifications to HKFRS 15)
Amendments to HKAS 40	Transfers of Investment Property
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration

* English translation is for identification only

Notes to the Financial Statements (*continued*)

2. ADOPTION OF NEW OR REVISED HKFRSs (CONTINUED)

2.1 Adoption of new or revised HKFRSs – effective 1 January 2018 (Continued)

Annual Improvements to HKFRSs 2014–2016 Cycle Amendments to HKAS 28 Investments in Associates and Joint Ventures

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKAS 28 *Investments in Associates and Joint Ventures* clarifying that a Venture Capital organisation's permissible election to measure its associates or joint ventures at fair value is made separately for each associate or joint venture.

The adoption of these amendments has no impact on these financial statements as the Group is not a venture capital organisation.

HKFRS 9 Financial Instruments

HKFRS 9 *Financial Instruments* ("HKFRS 9") replaces HKAS 39 *Financial Instruments: Recognition and Measurement* ("HKAS 39") for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: (i) classification and measurement; (ii) impairment; and (iii) hedge accounting. The adoption of HKFRS 9 from 1 January 2018 has resulted in changes in accounting policies of the Group and the amounts recognized in the consolidated financial statements. The new accounting policies are set out in note 3.13A below.

(i) Classification and measurement of financial instruments

HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at fair value through profit or loss, where the amount of change in fair value attributable to change in credit risk of the liability is recognized in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities. However, it eliminates the previous HKAS 39 categories for financial assets of held-to-maturity financial assets, loans and receivables and available-for-sale financial assets. The adoption of HKFRS 9 has no material impact on the Group's accounting policies related to financial liabilities and derivative financial instruments. The impact of HKFRS 9 on the Group's classification and measurement of financial assets is set out below.

Under HKFRS 9, except for certain trade receivables (that the trade receivables do not contain a significant financing component in accordance with HKFRS 15), an entity shall, at initial recognition, measure a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. A financial asset is classified as: (i) financial assets at amortized cost; (ii) financial assets at fair value through other comprehensive income; or (iii) financial assets at fair value through profit or loss. The classification of financial assets under HKFRS 9 is generally based on two criteria: (i) the business model under which the financial asset is managed and (ii) its contractual cash flow characteristics (the "solely payments of principal and interest" criterion). Under HKFRS 9, embedded derivatives is no longer required to be separated from a host financial asset. Instead, the hybrid financial instrument is assessed as a whole for the classification.

Notes to the Financial Statements (*continued*)

2. ADOPTION OF NEW OR REVISED HKFRSs (CONTINUED)

2.1 Adoption of new or revised HKFRSs – effective 1 January 2018 (Continued)

HKFRS 9 Financial Instruments (Continued)

(i) *Classification and measurement of financial instruments (Continued)*

The following table summarizes the original measurement categories under HKAS 39 and the new measurement categories under HKFRS 9 for each class of the Group's financial assets as at 1 January 2018:

Financial assets	Original classification under HKAS 39 (note 3.13B(i))	New classification under HKFRS 9 (note 3.13A(i))	Carrying amount at 1 January 2018 under HKAS 39 HK\$'000	Carrying amount at 1 January 2018 under HKFRS 9 HK\$'000
Unlisted equity instruments (note (a))	Available-for-sale financial assets (at cost)	Financial assets at fair value through other comprehensive income	1,196	1,196
A derivative financial instrument (note (b))	Financial assets at fair value through profit or loss	Financial assets at fair value through profit or loss	1,974	1,974
Trade and other receivables (note (c))	Loans and receivables	Financial assets at amortized cost	1,752,329	1,752,329
Amount due from an associate (note (c))	Loans and receivables	Financial assets at amortized cost	68,094	68,094
Amount due from a joint venture (note (c))	Loans and receivables	Financial assets at amortized cost	305,057	305,057
Amounts due from non-controlling interests (note (c))	Loans and receivables	Financial assets at amortized cost	353,678	353,678
Restricted cash and deposits (note (c))	Loans and receivables	Financial assets at amortized cost	7,553,007	7,553,007
Cash and bank balances (note (c))	Loans and receivables	Financial assets at amortized cost	16,149,246	16,149,246

Notes to the Financial Statements (*continued*)

2. ADOPTION OF NEW OR REVISED HKFRSs (CONTINUED)

2.1 Adoption of new or revised HKFRSs – effective 1 January 2018 (Continued)

HKFRS 9 Financial Instruments (Continued)

(i) *Classification and measurement of financial instruments (Continued)*

Notes:

- (a) As at 1 January 2018, investment in unlisted equity instruments were reclassified from available-for-sale financial assets to financial assets at fair value through other comprehensive income. These unlisted equity instruments have no quoted price in an active market. The Group intends to hold these unlisted equity instruments for long-term strategic purposes. In addition, the Group has designated such unquoted equity instruments at the date of initial application of HKFRS 9 as measured at fair value through other comprehensive income. In the opinion of the directors, the previous carrying amount of the unlisted equity instruments are not materially different from its fair value as at 1 January 2018.
- (b) The derivative financial instruments, being the interest rate swap contract, was classified and measured at fair value through profit or loss under HKAS 39. Such derivative financial instrument continues to be classified and measured at fair value through profit or loss upon adoption of HKFRS 9.
- (c) The Group's trade and other receivables, amounts due from an associate, a joint venture and non-controlling interests, restricted cash and deposits and cash and bank balances were previously classified as loans and receivables and measured at amortized cost under HKAS 39. These financial assets meet the "solely payments of principal and interest" criterion and it is the Group's business model to hold these financial assets to collect their contractual cash flows. Accordingly, they are classified as financial assets at amortized cost and continue to be subsequently measured at amortized cost upon the adoption of HKFRS 9.

The measurement categories for all financial liabilities remain the same, except for financial guarantee contracts (see note 3.13A(vi)). The carrying amounts for all financial liabilities (including financial guarantee contracts) at 1 January 2018 have not been impacted by the initial adoption of HKFRS 9.

The Group did not designate or de-designate any financial asset or financial liability at fair value through profit or loss at 1 January 2018.

(ii) *Impairment of financial assets*

The adoption of HKFRS 9 has changed the Group's impairment model by replacing the HKAS 39 "incurred loss model" to the "expected credit losses ("ECL") model". HKFRS 9 requires the Group to recognize an allowance for ECL for the Group's trade and other receivables, amounts due from an associate, a joint venture and non-controlling interests earlier than HKAS 39. Restricted cash and deposits and cash and bank balances are also subject to ECL model but the impairment is immaterial for the current period as the counterparties are reputable banks.

Under HKFRS 9, impairment loss is measured on either of the following basis: (i) 12-month ECL (these are the ECL that result from possible default events within 12 months after the reporting date); and (ii) lifetime ECL (those are ECL that result from all possible default events over the expected life of a financial instrument).

In addition, loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. For debt investment at fair value through other comprehensive income, the loss allowance is recognized in other comprehensive income, instead of reducing the carrying amount of the assets.

The initial adoption of HKFRS 9 has no material impact on the Group's loss allowance as at 1 January 2018. For further details of the Group's accounting policy for accounting for credit losses, see note 3.13A(ii).

Notes to the Financial Statements (*continued*)

2. ADOPTION OF NEW OR REVISED HKFRSs (CONTINUED)

2.1 Adoption of new or revised HKFRSs – effective 1 January 2018 (Continued)

HKFRS 9 Financial Instruments (Continued)

(iii) *Hedge accounting*

Hedge accounting under HKFRS 9 has no impact on the Group as the Group does not apply hedge accounting in its hedging relationships.

(iv) *Transition*

The Group has applied the transitional provision in HKFRS 9 such that HKFRS 9 was generally adopted without restating comparative information. The reclassifications and the adjustments arising from the new ECL requirements, if any, are therefore not reflected in the consolidated statement of financial position as at 31 December 2017, but are recognized in the consolidated statement of financial position on 1 January 2018. This means that differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of HKFRS 9, if any, are recognized in retained profits and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of HKFRS 9 but rather those of HKAS 39 and thus certain comparative information may not be comparable with the current period.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application of HKFRS 9:

- The determination of the business model within which a financial asset is held; and
- The designation of investment in unlisted equity instruments not held for trading as financial assets at fair value through other comprehensive income.

In addition, if an investment in a debt investment had low credit risk at the date of initial application, then the Group has assumed that the credit risk on the asset had not increased significantly since its initial recognition.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 *Revenue from Contracts with Customers* ("HKFRS 15") supersedes HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* ("HKAS 18") and related interpretations. HKFRS 15 has established a five steps model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognized at the amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

HKFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim at enabling users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The Group has adopted HKFRS 15 using the cumulative effect method without practical expedients. The Group has recognized the cumulative effect of initially applying HKFRS 15 as an adjustment to the opening balance of retained profits at the date of initial application, i.e. 1 January 2018. As a result, the financial information presented for 2017 has not been restated.

Notes to the Financial Statements (*continued*)

2. ADOPTION OF NEW OR REVISED HKFRSs (CONTINUED)

2.1 Adoption of new or revised HKFRSs – effective 1 January 2018 (Continued)

HKFRS 15 Revenue from Contracts with Customers (Continued)

The following tables summarize the impact, net of tax, of transition to HKFRS 15 on the opening balances of retained profits and non-controlling interests:

	Increase/ (Decrease) HK\$'000
Retained profits	
Earlier recognition of revenue and profit for sales of properties	826,142
Capitalization of costs of obtaining contracts	6,582
Related tax	(400,020)
Net increase in retained profits at 1 January 2018	432,704

	Increase/ (Decrease) HK\$'000
Non-controlling interests	
Earlier recognition of revenue and profit for sales of properties	32,608
Capitalization of costs of obtaining contracts	324
Related tax	(16,014)
Translation adjustment	558
Net increase in non-controlling interests at 1 January 2018	17,476

Notes to the Financial Statements (*continued*)

2. ADOPTION OF NEW OR REVISED HKFRSs (CONTINUED)

2.1 Adoption of new or revised HKFRSs – effective 1 January 2018 (Continued)

HKFRS 15 Revenue from Contracts with Customers (Continued)

Further details of the nature and effect of the changes on previous accounting policies are set out below:

(i) *Timing of revenue recognition*

Previously, revenue arising from sales of properties was generally recognized as revenue when the significant risks and rewards of ownership of the properties are transferred to the buyers, whereas revenue from provision of services was recognized when the relevant services are provided to the customers.

Under HKFRS 15, revenue is recognized when the customer obtains control of the promised goods or service in the contract. This may be at a point in time or over time. HKFRS 15 identifies the following three situations in which control of the promised goods or service is regarded as being transferred over time:

- (a) When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;
- (b) When the entity's performance creates or enhances an asset that the customer controls as the asset is created or enhanced;
- (c) When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these three conditions, then under HKFRS 15 the entity recognizes revenue from sales of that goods or service at a point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

The adoption of HKFRS 15 does not have significant impact on when the Group recognizes revenue from provision of services, including services in relation to hotel operation and other ancillary services. However, the timing of revenue recognition for sales of properties is affected as follows:

Impact on revenue recognition for sales of properties

Previously, revenue from sales of properties was recognized by the Group when (a) the significant risks and rewards of ownership of the properties are transferred to the buyers, (b) neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the properties are retained; (c) it is probable that the economic benefits associated with the transaction will flow to the Group; and (d) the costs incurred or to be incurred in respect of the transaction can be measured reliably. This is usually taken at a point in time when the property has been delivered to the buyer.

Notes to the Financial Statements (*continued*)

2. ADOPTION OF NEW OR REVISED HKFRSs (CONTINUED)

2.1 Adoption of new or revised HKFRSs – effective 1 January 2018 (Continued)

HKFRS 15 Revenue from Contracts with Customers (Continued)

(i) *Timing of revenue recognition (Continued)*

Impact on revenue recognition for sales of properties (Continued)

Under HKFRS 15, the Group determines whether the property has no alternative use to the Group and whether the Group has an enforceable right to payment from the customer for performance completed to date, taking into account the terms of the contract, the Group's business practice and the legal and regulatory environment where the Group's property development activities operate.

When the properties have no alternative use to the Group and the Group does not have an enforceable right to payment from the customers for performance completed to date, the Group recognizes revenue at a point in time when the performance obligations are satisfied and the ownership of the properties are transferred to the customers.

When the properties have no alternative use to the Group and the Group has an enforceable right to payment from the customers for performance completed to date, the Group recognizes revenue as the performance obligation are satisfied over time and the Group measures the progress towards complete satisfaction of performance obligation using input method, which is determined with reference the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract.

As a result of this change in accounting policy, the Group made adjustments which increased interests in joint ventures by HK\$13,934,000, trade and other payables by HK\$213,797,000, deferred tax liabilities by HK\$416,935,000, non-controlling interests by HK\$17,141,000, translation reserve by HK\$15,960,000 and retained profits by HK\$426,122,000 whereas reduced deferred tax assets by HK\$12,823,000, inventories of properties by HK\$1,552,270,000 and contract liabilities by HK\$2,641,114,000.

(ii) *Significant financing component*

HKFRS 15 requires an entity to adjust the transaction price for the time value of money when a contract contains a significant financing component, regardless of whether the payments from customers are received significantly in advance of revenue recognition or significantly deferred.

Previously, the Group only applied such a policy when payments were significantly deferred, which was not common in the Group's arrangements with its customers. The Group did not apply such policy when payments were received in advance.

It is the Group's practice to market its property projects while the properties are still under construction and the Group receives payments from the customers in advance of revenue recognition for sales of properties. Following the requirements under HKFRS 15, for contracts where the period between the payments by the customers and the transfer of the properties to the customers exceed one year, the transaction price is adjusted for the effect of the financing component, if significant.

This change in accounting policy had no material impact on opening balances as at 1 January 2018.

Notes to the Financial Statements (*continued*)

2. ADOPTION OF NEW OR REVISED HKFRSs (CONTINUED)

2.1 Adoption of new or revised HKFRSs – effective 1 January 2018 (Continued)

HKFRS 15 Revenue from Contracts with Customers (Continued)

(iii) *Costs incurred to obtain a contract*

The Group previously recognized costs of obtaining a contract, such as stamp duties and sales commission, as expenses in profit or loss when they were incurred. Under HKFRS 15, the Group is required to capitalize those costs of obtaining contracts when they are incremental and are expected to be recovered, unless the expected amortization period is one year or less from the date of initial recognition of the asset, in which case those costs can be expensed when incurred. Capitalized costs of obtaining contracts are charged to profit or loss when the revenue from the related property sale is recognized and are included in distribution and selling expenses or administrative expenses, where appropriate, at that time.

As a result of this change in accounting policy, the Group has capitalized stamp duty and sales commission related to property sales contracts amounting to HK\$7,134,000 as at 1 January 2018 with a corresponding increase in retained profits by HK\$6,582,000, translation reserve by HK\$217,000 and non-controlling interests by HK\$335,000.

(iv) *Presentation of contract liabilities*

Previously, payments from customers received in advance of revenue recognition were included in sales deposits received. Upon adoption of HKFRS 15, the Group reclassified advance payments from the customers amounting to HK\$30,820,778,000 as contract liabilities to consistent with the terminology used under HKFRS 15.

The following tables summarize the impact of adopting HKFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 and its consolidated income statement, consolidated statement of other comprehensive income and consolidated statement of cash flows for the year ended 31 December 2018. These tables show only those line items impacted by the adoption of HKFRS 15.

Notes to the Financial Statements (*continued*)

2. ADOPTION OF NEW OR REVISED HKFRSs (CONTINUED)

2.1 Adoption of new or revised HKFRSs – effective 1 January 2018 (Continued)

HKFRS 15 Revenue from Contracts with Customers (Continued)

	Increase/ (Decrease) HK\$'000
<i>Line items in the consolidated income statement for the year ended 31 December 2018 impacted by the adoption of HKFRS 15</i>	
Revenue	1,797,382
Cost of sales and services provided	1,055,219
Gross profit	742,163
Distribution and selling expenses	(8,369)
Administrative expenses	(1,186)
Operating profit	751,718
Share of results of joint ventures	52,845
Profit before income tax	804,563
Income tax expense	372,460
Profit for the year	432,103
Profit attributable to owners of the Company	417,803

	Increase HK Cents
Earnings per share	
Basic	12.6
Diluted	12.6

	Increase/ (Decrease) HK\$'000
<i>Line items in the consolidated statement of comprehensive income for the year ended 31 December 2018 impacted by the adoption of HKFRS 15</i>	
Other comprehensive income for the year	(42,632)
Total comprehensive income for the year	389,471
Total comprehensive attributable to owners of the Company	376,537

Notes to the Financial Statements (*continued*)

2. ADOPTION OF NEW OR REVISED HKFRSs (CONTINUED)

2.1 Adoption of new or revised HKFRSs – effective 1 January 2018 (Continued)

HKFRS 15 Revenue from Contracts with Customers (Continued)

	Increase/ (Decrease) HK\$'000
<i>Line items in the consolidated statement of financial position as at 31 December 2018 impacted by the adoption of HKFRS 15</i>	
Interests in joint ventures	64,061
Deferred tax assets	(25,211)
Total non-current assets	38,850
Inventories of properties	(2,533,679)
Contract assets	15,986
Trade and other receivables, prepayments and deposits	23,368
Total current assets	(2,494,325)
Trade and other payables	391,254
Contract liabilities	43,282,504
Sales deposits received	(47,727,668)
Total current liabilities	(4,053,910)
Net current assets	1,559,585
Total assets less current liabilities	1,598,435
Deferred tax liabilities	742,607
Net assets	855,828
Translation reserve	(25,089)
Retained profits	850,507
Total equity attributable to owners of the Company	825,418
Non-controlling interests	30,410
Total equity	855,828

	Increase/ (Decrease) HK\$'000
<i>Line items in the consolidated statement of cash flows for the year ended 31 December 2018 impacted by the adoption of HKFRS 15</i>	
Profit before income tax	804,563
Adjustments for:	
Share of results of joint ventures	(52,845)
Exchange difference	(2,727)
Operating cash flows before movements in working capital	748,991
Increase in inventories of properties	1,091,877
Increase in trade and other receivables, prepayments and deposits	(24,325)
Increase in contract assets	(9,556)
Increase in trade and other payables	197,275
Increase in sales deposits received	(19,073,659)
Increase in contract liabilities	17,069,397

Notes to the Financial Statements (*continued*)

2. ADOPTION OF NEW OR REVISED HKFRSs (CONTINUED)

2.1 Adoption of new or revised HKFRSs – effective 1 January 2018 (Continued)

Amendments to HKFRS 15 Revenue from Contracts with Customers (Clarifications to HKFRS 15)

The amendments to HKFRS 15 included clarifications on identification of performance obligations; application of principal versus agent; licenses of intellectual property; and transition requirements.

The adoption of these amendments has no impact on these financial statements as the Group had not previously adopted HKFRS 15 and took up the clarifications in this, its first, year.

Amendments to HKAS 40 Investment Property – Transfers of Investment Property

The amendments clarify that to transfer to or from investment properties there must be a change in use and provides guidance on making this determination. The clarification states that a change of use will occur when a property meets, or ceases to meet, the definition of investment property and there is supporting evidence that a change has occurred. The amendments also re-characterize the list of evidence in the standard as a non-exhaustive list, thereby allowing for other forms of evidence to support a transfer.

The adoption of these amendments has no material impact on these financial statements as the clarified treatment is consistent with the manner in which the Group has previously assessed transfers.

HK(IFRIC) – Int 22 Foreign Currency Transactions and Advance Consideration

The Interpretation provides guidance on determining the date of the transaction for determining an exchange rate to use for transactions that involve advance consideration paid or received in a foreign currency and the recognition of a non-monetary asset or non-monetary liability. The Interpretation specifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which the entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

The adoption of these amendments has no impact on these financial statements as the Group has not paid or received advance consideration in a foreign currency.

Notes to the Financial Statements (*continued*)

2. ADOPTION OF NEW OR REVISED HKFRSs (CONTINUED)

2.2 New or revised HKFRSs that have been issued but not yet effective

The following new or revised HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group:

HKFRS 16	Leases ¹
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments ¹
Amendments to HKAS 1 and HKAS 8	Definition of Material ⁴
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures ¹
Amendments to HKFRS 3	Definition of Business ³
Amendments to HKFRS 9	Prepayment Features with Negative Compensation ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ²
Annual Improvements to HKFRSs 2015–2017 Cycle	Amendments to HKFRS 3 Business Combinations, HKFRS 11 Joint Arrangements, HKAS 12 Income Taxes and HKAS 23 Borrowing costs ¹

¹ Effective for annual periods beginning on or after 1 January 2019

² The amendments were originally intended to be effective for periods beginning on or after 1 January 2016. The effective date has now been deferred or removed. Early application of the amendments continues to be permitted.

³ Effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period.

⁴ Effective for annual periods beginning on or after 1 January 2020.

The directors of the Company anticipate that all of the relevant pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement. Those new or revised HKFRSs that are expected to have material impact on the Group's accounting policies and/or financial statements are set out below:

HKFRS 16 Leases

HKFRS 16, which upon the effective date will supersede HKAS 17 *Leases* and related interpretations, introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognize depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

Notes to the Financial Statements (*continued*)

2. ADOPTION OF NEW OR REVISED HKFRSs (CONTINUED)

2.2 New or revised HKFRSs that have been issued but not yet effective (Continued)

HKFRS 16 Leases (Continued)

The Group reviewed all of the Group's leasing arrangements during 2018 in light of the new lease accounting rules in HKFRS 16. The standard will affect primarily the accounting for the Group's operating leases.

The Group leases certain office premises, quarters and shopping mall operating right under operating lease arrangements, which are currently accounted for as operating lease as set out in note 3.11. As at 31 December 2018, the Group has non-cancellable operating lease commitment of HK\$55,716,000 (note 43). These arrangements meet the definition of a lease under HKFRS 16, and hence the Group will recognize a right-of-use asset and a corresponding lease liability in respect of these leases upon adoption of HKFRS 16. In the consolidated income statement, as the leases will be capitalized in the future, operating lease expense will no longer be recorded for these leases while depreciation and interest expense will increase due to the depreciation charge on the right-of-use asset and the interest expense on the lease liability. In addition, more quantitative and qualitative disclosures about the leases will be made following the requirements of HKFRS 16.

HK(IFRIC) – Int 23 Uncertainty over Income Tax Treatments

The Interpretation supports the requirements of HKAS 12 *Income Taxes* by providing guidance over how to reflect the effects of uncertainty in accounting for income taxes. Under the Interpretation, the entity shall determine whether to consider each uncertain tax treatment separately or together based on which approach better predicts the resolution of the uncertainty. The entity shall also assume the tax authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If the entity determines it is probable that the tax authority will accept an uncertain tax treatment, then the entity should measure current and deferred tax in line with its tax filings. If the entity determines it is not probable, then the uncertainty in the determination of tax is reflected using either the "most likely amount" or the "expected value" approach, whichever better predicts the resolution of the uncertainty.

Amendments to HKAS 28 Long-term Interests in Associates and Joint Ventures

The amendment clarifies that HKFRS 9 applies to long-term interests in associates or joint ventures which form part of the net investment in the associates or joint ventures and stipulates that HKFRS 9 is applied to these long-term interests in associates or joint ventures before the impairment losses guidance within HKAS 28.

Amendments to HKFRS 9 Prepayment Features with Negative Compensation

The amendments clarify that prepayable financial assets with negative compensation can be measured at amortized cost or at fair value through other comprehensive income if specified conditions are met, instead of at fair value through profit or loss.

Amendments to HKFRS 10 and HKAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments clarify the extent of gains or losses to be recognized when an entity sells or contributes assets to its associate or joint venture. When the transaction involves a business the gain or loss is recognized in full, conversely when the transaction involves assets that do not constitute a business the gain or loss is recognized only to the extent of the unrelated investors' interests in the joint venture or associate.

Notes to the Financial Statements (*continued*)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are summarized below. These policies have been consistently applied to all the years presented unless otherwise stated.

3.1 Basis of preparation

These financial statements have been prepared under the historical cost basis except for investment properties and certain financial instruments which are measured at fair value. The measurement bases are fully described in the accounting policies below.

All values are rounded to the nearest thousand except otherwise indicated.

Accounting estimates and assumptions have been used in preparing these financial statements. Although these estimates and assumptions are based on management's best knowledge and judgment of current events and conditions, actual results may ultimately differ from those estimates and assumptions. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Group's financial statements, are disclosed in note 4.

3.2 Business combination and basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries (see note 3.3 below) made up to 31 December each year. Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intercompany transactions, balances and unrealized gains and losses on transactions within the Group are eliminated on consolidation. Unrealized losses resulting from intercompany transaction are also eliminated unless the transaction provides evidence of an impairment of the asset transferred, in which case they are recognized immediately in profit or loss.

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group in exchange for control of the acquiree. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. If the business combination is achieved in stages, the Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognized in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interests that represent present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by another HKFRS. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments, in which case the costs are deducted from equity.

Any contingent consideration to be transferred by the acquirer is recognized at acquisition-date fair value. Subsequent changes to the fair value of the contingent consideration are recognized against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent changes to contingent consideration classified as an asset or a liability are recognized in profit or loss.

Notes to the Financial Statements (*continued*)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Business combination and basis of consolidation (Continued)

Goodwill or bargain purchases arising on business combination is accounted for according to the policies in notes 3.6 and 3.7 respectively.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transaction. The carrying amounts of the Group's interest and the non-controlling interest are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

Subsequent to acquisition, the carrying amount of non-controlling interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus such non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to such non-controlling interests even if this results in those non-controlling interests having a deficit balance.

When the Group loses control of a subsidiary, the profit or loss on disposal 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 previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest, and also the cumulative translation differences recorded in equity. Amounts previously recognized in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

3.3 Subsidiaries

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present:

- power over the investee;
- exposure, or rights, to variable returns from the investee; and
- the ability to use its power to affect those variable returns.

Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Notes to the Financial Statements (*continued*)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor a joint arrangement. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not control or joint control over those policies.

Associates are accounted for using the equity method whereby they are initially recognized at cost and thereafter, their carrying amount are adjusted for the Group's share of the post-acquisition change in the associates' net assets except that losses in excess of the Group's interest in the associate are not recognized unless there is an obligation to make good those losses.

Profits and losses arising on transactions between the Group and its associates are recognized only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated against the carrying value of the associate. Where unrealized losses provide evidence of impairment of the asset transferred they are recognized immediately in profit or loss.

Any premium paid for an associate above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalized and included in the carrying amount of the associate. Where there is objective evidence that the investment in an associate has been impaired, the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

3.5 Joint arrangements

The Group is a party to a joint arrangement where there is a contractual arrangement that confers joint control over the relevant activities of the arrangement to the Group and at least one other party. Joint control is assessed under the same principles as control over subsidiaries.

The Group classifies its interests in joint arrangements as either:

- joint ventures: where the Group has rights to only the net assets of the joint arrangement; or
- joint operations: where the Group has both the rights to assets and obligations for the liabilities of the joint arrangement.

In assessing the classification of interests in joint arrangements, the Group considers:

- the structure of the joint arrangement;
- the legal form of joint arrangement structured through a separate vehicle;
- the contractual terms of the joint arrangement agreement; and
- any other facts and circumstances (including any other contractual arrangements).

Notes to the Financial Statements (*continued*)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Joint arrangements (Continued)

Joint ventures are accounted for using the equity method whereby they are initially recognized at cost and thereafter, their carrying amount are adjusted for the Group's share of the post-acquisition change in the joint ventures' net assets except that losses in excess of the Group's interest in the joint venture are not recognized unless there is an obligation to make good those losses.

Profits and losses arising on transactions between the Group and its joint venture are recognized only to the extent of unrelated investors' interests in the joint venture. The investor's share in the joint venture's profits and losses resulting from these transactions is eliminated against the carrying value of the joint venture. Where unrealized losses provide evidence of impairment of the asset transferred, they are recognized immediately in profit or loss.

Any premium paid for an investment in a joint venture above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalized and included in the carrying amount of the investment in joint venture. Where there is objective evidence that the investment in a joint venture has been impaired, the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

Joint operations are accounted for by recognizing the Group's share of assets, liabilities, revenue and expenses in accordance with its contractually conferred rights and obligations.

3.6 Goodwill

Goodwill arising from the acquisition of subsidiaries, associates and joint ventures represents the excess of the aggregate of the consideration transferred, the amount recognized for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree, over the Group's interest in the fair value of the identifiable assets acquired and liabilities assumed including contingent liabilities as at the date of acquisition.

Goodwill arising on acquisition is initially recognized in the consolidated statement of financial position as an asset at cost and subsequently measured at cost less any accumulated impairment losses. In case of associates and joint ventures, goodwill is included in the carrying amount of the interests in associates and joint ventures rather than recognized as a separate asset in the consolidated statement of financial position.

Goodwill is reviewed for impairment annually at the end of the reporting period or more frequently if events or changes in circumstances indicate that the carrying value of goodwill may be impaired (note 3.12). Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Bargain purchases in business combinations

Any excess of the Group's interest in the fair value of the acquirees' net identifiable assets, liabilities and contingent liabilities over the aggregate of the consideration transferred, the amount recognized for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree is recognized immediately in profit or loss.

3.8 Investment properties

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purpose.

Investment property is initially stated at cost, including directly attributable costs, and subsequently stated at fair value. Any gain or loss resulting from either a change in the fair value or disposal of an investment property is immediately recognized in profit or loss. Rental income from investment properties is accounted for as described in notes 3.17A(iii) or 3.17B(iii).

For a transfer from investment property carried at fair value to owner-occupied property, the property's deemed cost for subsequent accounting is its fair value at the date of change in use. For property occupied by the Group as an owner-occupied property which becomes an investment property, the Group accounts for such property in accordance with the policy of property, plant and equipment (note 3.9) up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is dealt with in assets revaluation reserve. On disposal of the property, the assets revaluation reserve is transferred to retained profits as a movement in reserves. For a transfer from inventories to investment properties, any difference between the fair value of the property at that date and its previous carrying amount is recognized in profit or loss.

3.9 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses (note 3.12).

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to the working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where it can be demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalized as an additional cost of that asset or as a replacement.

Notes to the Financial Statements (*continued*)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9 Property, plant and equipment (Continued)

Depreciation is provided to write off the cost of each item of property, plant and equipment less its estimated residual value, if applicable, over its estimated useful life on a straight-line basis at the following rates per annum:

<i>Category of property, plant and equipment</i>	<i>Annual rates</i>
Land and buildings (note 3.11)	2% to 5%
Leasehold improvements	Over the shorter of the lease terms or 5 years
Furniture, fixtures and office equipment	10% to 33.33%
Motor vehicles	20% to 25%

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period.

Construction in progress is stated at cost less impairment losses. Cost comprises direct costs of construction as well as borrowing costs capitalized during the periods of construction and installation. Capitalization of these costs ceases and the construction in progress is transferred to the appropriate class of property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided for in respect of construction in progress until it is completed and ready for its intended use.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising from the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the item and is recognized in profit or loss.

3.10 Intangible assets (Other than goodwill)

Intangible assets are recognized initially at cost. After initial recognition, intangible assets with finite useful life are amortized over the estimated useful life and assessed for impairment (note 3.12) whenever there is an indication that the intangible asset may be impaired. Intangible assets with indefinite useful life are not amortized but reviewed for impairment at least annually (note 3.12) either individually or at the cash-generating unit level. The useful life of an intangible asset with indefinite useful life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Shopping mall operating right

Shopping mall operating right represents the right of operating a shopping mall which is carried at cost less accumulated amortization and any impairment losses. Amortization is provided on a straight-line basis over the period of operation of 30 years.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.11 Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased out by the Group under operating leases are included in non-current assets, and rental receivable under the operating leases are credited to profit or loss on a straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases, net of any incentives received or receivable, are charged to profit or loss on a straight-line basis over the lease terms.

Prepaid lease rental on land are up-front prepayments made for the leasehold land and land use rights which are stated at cost less accumulated amortization and any impairment losses. Amortization is calculated on a straight-line basis over the lease term. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in cost of land and buildings as a finance lease in property, plant and equipment (note 3.9).

When the Group's interests in leasehold land and buildings are in the course of development for sale in ordinary course of business, the leasehold land component is included in properties under development or properties held for sale.

3.12 Impairment of non-financial assets

Goodwill, other intangible assets, property, plant and equipment, prepaid lease rental on land and interests in subsidiaries, associates and joint ventures are subject to impairment testing. Goodwill and other intangible assets with indefinite useful life or those not yet available for use are tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other assets are tested for impairment whenever there are indications that the assets' carrying amount may not be recoverable.

An impairment loss is recognized as an expense immediately unless the relevant asset is carried at a revalued amount under another HKFRS, in which case the impairment loss is treated as a revaluation decrease under that HKFRS, for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, 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 assessment of the time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill in particular is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which the goodwill is monitored for internal management purpose.

Notes to the Financial Statements (*continued*)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.12 Impairment of non-financial assets (Continued)

Impairment losses recognized for cash-generating units to which goodwill has been allocated are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit, except that the carrying value of an asset will not be reduced below its individual fair value less cost to sell, or value-in-use, if determinable.

An impairment loss on goodwill is not reversed in subsequent periods including impairment losses recognized in an interim period. In respect of other assets, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount but only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined (net of depreciation or amortization) had no impairment loss been recognized.

A reversal of such impairment is credited to profit or loss in the period in which it arises unless that asset is carried at revalued amount, in which case the reversal of impairment loss is accounted for in accordance with the relevant accounting policy for the revalued amount.

3.13 Financial instruments

A. Policies applicable from 1 January 2018

(i) Financial assets

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

All regular way purchases and sales of financial assets are recognized on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

Financial assets with embedded derivatives are considered at their entirety when determining whether their cash flows are solely payments of principal and interest on the principal outstanding.

The Group classifies its financial assets in the following measurement categories:

- financial assets at amortized cost
- financial assets at fair value through other comprehensive income; and
- financial assets at fair value through profit or loss.

Notes to the Financial Statements (*continued*)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13 Financial instruments (Continued)

A. Policies applicable from 1 January 2018 (Continued)

(i) Financial assets (Continued)

The classification is generally based on two criteria:

- the business model under which the financial asset is managed; and
- the contractual cash flow characteristics of the financial asset.

The subsequent measurement of financial assets depends on their classification as follows:

Debt instruments

There are three measurement categories into which the Group classifies its debt instruments:

- Amortized cost

Financial assets that are held within a business model whose objective is to hold the financial assets in order to collect contractual cash flows and the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding are measured at amortized cost using the effective interest method. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss.

- Fair value through other comprehensive income

Financial assets that are held within a business model whose objective is to be achieved by both collecting contractual cash flows and selling the financial assets and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding are measured at fair value through other comprehensive income. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

- Fair value through profit or loss

Financial assets that do not meet the criteria for amortized cost or financial assets at fair value through other comprehensive income are measured at fair value through profit or loss. Changes in fair value and interest income are recognized in profit or loss.

Notes to the Financial Statements (*continued*)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13 Financial instruments (Continued)

A. Policies applicable from 1 January 2018 (Continued)

(i) Financial assets (Continued)

Equity instruments

- Fair value through profit or loss

Equity investments at fair value through profit or loss are subsequently measured at fair value. Changes in fair value, dividend income and interest income are recognized in profit or loss.

- Fair value through other comprehensive income

For equity investment which is not held for trading purposes and on initial recognition of the investment the Group makes an irrevocable election to designate the investment at fair value through other comprehensive income, they are subsequently measured at fair value and changes in fair value are recognized in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Dividend income is recognized in profit or loss unless the dividend income clearly represents a recovery of part of the cost of the investments. Other net gains and losses are recognized in other comprehensive income and are not reclassified to profit or loss. On disposal of the investment, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained profits. Equity instruments at fair value through other comprehensive income are not subject to impairment assessment.

(ii) Impairment loss on financial assets

The Group recognizes an allowance for ECL on debt instruments carried at amortized cost (including trade and other receivables, amounts due from an associate, a joint venture and non-controlling interest, restricted cash and deposits and cash and bank balances) and measured at fair value through other comprehensive income.

ECL are probability-weighted estimate of credit losses. Credit losses are measured at the difference between the contractual cash flows due in accordance with the contract and the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancement that are integral to the contract terms.

The ECL are measured on either of the following bases:

- 12-month ECL: these are the ECL that result from possible default events within 12 months after the reporting date; and
- lifetime ECL: these are ECL that result from all possible default events over the expected events life of a financial instrument.

Notes to the Financial Statements (*continued*)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13 Financial instruments (Continued)

A. Policies applicable from 1 January 2018 (Continued)

(ii) Impairment loss on financial assets (Continued)

The maximum period considered when estimating ECL is the maximum contractual period over which the Group is exposed to credit risk.

For trade receivables and contract assets, the Group applies the simplified approach in measuring ECL, that is to recognize a loss allowance based on lifetime ECL at each reporting date. The Group estimates the loss allowance using a provision matrix which is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other debt financial assets, the Group applies the general approach to measure ECL, that is to recognize a loss allowance based on 12-month ECL. However, when there has been a significant increase in credit risk since initial recognition, the loss allowance will be based on the lifetime ECL.

The Group assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. For this purpose, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assesses whether the credit risk on an exposure has increased significantly on an individual or collective basis. For the purposes of a collective evaluation of impairment, financial instruments are grouped on the basis of shared credit risk characteristics, such as past due status and credit risk rating, where applicable.

The Group recognizes an impairment gain or loss in profit or loss for financial instruments carried at amortized cost by adjusting their carrying amount through the use of a loss allowance account. The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. Subsequent recoveries of an asset that was previously written off are recognized as a reversal of impairment in profit or loss in the period in which the recovery occurs.

For investments in debt instruments that are measured at fair value through other comprehensive income, the loss allowance is recognized in other comprehensive income and accumulated in the fair value reserve without reducing the carrying amounts of those debt instruments.

Notes to the Financial Statements (*continued*)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13 Financial instruments (Continued)

A. Policies applicable from 1 January 2018 (Continued)

(ii) Impairment loss on financial assets (Continued)

Interest income on credit-impaired financial assets is calculated based on the amortized cost (i.e. the gross carrying amount less loss allowance) of the financial assets. For non credit-impaired financial assets, interest income is calculated based on the gross carrying amount.

(iii) Financial liabilities

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at fair value through profit or loss are initially measured at fair value and financial liabilities at amortized cost are initially measured at fair value, net of directly attributable costs incurred.

A financial liability is classified as (i) financial liabilities at fair value through profit or loss; or (ii) financial liabilities at amortized cost.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognized in profit or loss.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognizing gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13 Financial instruments (Continued)

A. Policies applicable from 1 January 2018 (Continued)

(iii) *Financial liabilities (Continued)*

Financial liabilities at fair value through profit or loss (Continued)

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognized in profit or loss in the period in which they arise, except for the gains and losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to profit or loss. The net fair value gain or loss recognized in profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities at amortized cost

Financial liabilities at amortized cost including trade payables, other payables and accruals, amounts due to associates, joint ventures, non-controlling interests and other related companies, borrowings and guaranteed notes payable are subsequently measured at amortized cost, using the effective interest method. The related interest expense is recognized in accordance with the Group's accounting policy for borrowing costs (note 3.24).

Gains or losses are recognized in profit or loss when the liabilities are derecognized as well as through the amortization process.

(iv) *Effective interest method*

The effective interest method is a method of calculating the amortized cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(v) *Equity instruments*

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(vi) *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 payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognized initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the loss allowance, being the ECL provision measured in accordance with principles of the accounting policy set out in 3.13A(ii); and (ii) the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with the principles of HKFRS 15.

Notes to the Financial Statements (*continued*)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13 Financial instruments (Continued)

A. Policies applicable from 1 January 2018 (Continued)

(vi) Financial guarantee contracts (Continued)

The Group monitors the risk that the specified debtor will default on the contract and recognizes a provision when ECL on the financial guarantees are determined to be higher than the carrying amount of the guarantees. To determine ECL, the Group considers changes in the risk of default of the specified debtor since the issuance of the guarantee. A 12-month ECL is measured unless the risk that the specified debtor will default has increased significantly since the guarantee is issued, in which case a lifetime ECL is measured. As the Group is required to make payments only in the event of a default by the specified debtor in accordance with the terms of the instrument that is guaranteed, ECL is estimated based on the expected payments to reimburse the holder for a credit loss that it incurs less any amount that the Group expects to receive from the holder of the guarantee, the specified debtor or any other party. The amount is then discounted using the current risk-free rate adjusted for risks specific to the cash flows.

(vii) Derecognition

The Group derecognizes a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKFRS 9.

Financial liabilities are derecognized when the obligation specified in the relevant contract is discharged, cancelled or expires.

Where the Group issues its own equity instruments to a creditor to settle a financial liability in whole or in part as a result of renegotiating the terms of that liability, the equity instruments issued are the consideration paid and are recognized initially and measured at their fair value on the date the financial liability or part thereof is extinguished. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments are measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability or part thereof extinguished and the consideration paid is recognized in profit or loss for the year.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13 Financial instruments (Continued)

B. Policies applied until 31 December 2017

The Group has applied HKFRS 9 retrospectively, but has elected not to restate comparative information. Accordingly, the comparative financial information provided continues to be accounted for in accordance with the Group's previous accounting policy.

(i) *Financial assets*

Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and, where allowed and appropriate, re-evaluates this designation at the end of each reporting period.

All financial assets are recognized when, and only when, the Group becomes a party to the contractual provisions of the instrument. The Group assesses whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract when the analysis shows that the economic characteristics and the risks of the embedded derivatives are not closely related to those of the host contract.

Regular way purchases and sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales of financial assets are purchases or sales of financial assets under a contract whose terms require delivery of assets within the timeframe established generally by regulation or convention in the marketplace concerned.

When financial assets are recognized initially, they are measured at fair value plus directly attributable transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

Financial assets at fair value through profit or loss

These assets include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognized in profit or loss in the period in which they arise.

Loans and receivables

Loans and receivables including amounts due from related parties are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently measured at amortized cost using the effective interest method, less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired as well as through the amortization process.

Notes to the Financial Statements (*continued*)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13 Financial instruments (Continued)

B. Policies applied until 31 December 2017 (Continued)

(i) Financial assets (Continued)

Available-for-sale financial assets

These assets are non-derivative financial assets that are designated as available-for-sale or are not included in other categories of financial assets. Subsequent to initial recognition, these assets are carried at fair value with changes in fair value recognized in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary instruments, which are recognized in profit or loss.

For 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 and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses.

(ii) Impairment of financial assets

At the end of each reporting period, financial assets other than those at fair value through profit or loss are reviewed to determine whether there is any objective evidence of impairment.

Objective evidence of impairment of individual financial assets includes observable data that come to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- granting concession to a debtor because of debtor's financial difficulty;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganization; and
- significant changes in the technological, financial market, economic or legal environment that have an adverse effect on the debtor.

Loss events in respect of a group of financial assets include observable data indicating that there is a measurable decrease in the estimated future cash flows from the group of financial assets. Such observable data include but not limited to adverse changes in the payment status of debtors in the group and, national or local economic conditions that correlate with defaults on the assets in the group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13 Financial instruments (Continued)

B. Policies applied until 31 December 2017 (Continued)

(ii) *Impairment of financial assets (Continued)*

Loans and receivables

If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of impairment loss is recognized in profit or loss of the period in which the impairment occurs. The carrying amount of loans and receivables is reduced through the use of an allowance account. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed. The amount of the reversal is recognized in profit or loss of the period in which the reversal occurs.

Available-for-sale financial assets

Where a decline in the fair value constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in profit or loss.

Any impairment losses on available-for-sale debt investments are subsequently reversed in profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For available-for-sale equity investment, any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income.

For available-for-sale equity investment that is carried at cost, the amount of impairment loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss is not reversed.

Notes to the Financial Statements (*continued*)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13 Financial instruments (Continued)

B. Policies applied until 31 December 2017 (Continued)

(iii) Financial liabilities

Financial liabilities, comprising borrowings, guaranteed notes payable, amounts due to related parties and trade and other payables, are recognized when the Group becomes a party to the contractual provisions of the instrument. The Group assesses whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract when the analysis shows that the economic characteristics and the risks of the embedded derivatives are not closely related to those of the host contract. All interest related charges are recognized in accordance with the Group's accounting policy for borrowing costs (note 3.24).

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognized in profit or loss.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognized in profit or loss.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognized in profit or loss in the period in which they arise.

Financial liabilities at amortized cost

Borrowings, guaranteed notes payable (note 34), amounts due to related parties and trade and other payables are financial liabilities at amortized cost, which are recognized initially at fair value, net of directly attributable costs incurred and subsequently measured at amortized cost using the effective interest method. Gains or losses are recognized in profit or loss when the liabilities are derecognized as well as through the amortization process.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13 Financial instruments (Continued)

B. Policies applied until 31 December 2017 (Continued)

(iv) *Effective interest method*

The effective interest method is a method of calculating the amortized cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(v) *Equity instruments*

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(vi) *Financial guarantee contracts*

A financial guarantee contract is a contract that requires the issuer (or guarantor) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognized initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognized less, when appropriate, cumulative amortisation recognized in accordance with HKAS 18.

(vii) *Derecognition*

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Notes to the Financial Statements (*continued*)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.14 Inventories of properties

Inventories of properties comprise properties under development and properties held for sale. Properties under development are investments in land and buildings on which construction work has not been completed and which, upon completion, management intends to hold for sale purposes. Inventories of properties are stated at the lower of cost and net realizable value. Net realizable value is determined on the basis of anticipated sales proceeds less estimated cost to completion and estimated selling expenses. The costs of inventories of properties consist of land held under operating lease (note 3.11), development expenditures including construction costs, borrowing costs and other direct costs attributable to the development of such properties.

3.15 Other inventories

Other inventories are stated at the lower of cost, computed using weighted average method, and net realizable value. Cost comprises all costs of purchases, cost of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

3.16 Cash and cash equivalents

Cash and cash equivalents include cash on hand, demand deposits with banks and short-term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. For the presentation purpose of the consolidated statement of cash flows, cash and cash equivalents include bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

3.17 Recognition of revenue and other income

Income is classified by the Group when it arises from the sale of goods, the provision of services or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

A. Policies applicable from 1 January 2018

Revenue from contracts with customers is recognized when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services, excluding those amounts collected on behalf of third parties. Revenue excludes value-added tax or other sales taxes and is after deduction of any trade discounts.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.17 Recognition of revenue and other income (Continued)

A. Policies applicable from 1 January 2018 (Continued)

Depending on the terms of the contract and the laws that apply to the contract, control of the goods or service may be transferred over time or at a point in time. Control of the goods or service is transferred over time if:

- 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.

If control of the goods or services transfers over time, revenue is recognized over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognized at a point in time when the customer obtains control of the goods or service.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amounts receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognized under that contract includes the interest expense accreted on the contract liability under the effective interest method. For contracts where the period between the payment and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

(i) Sales of properties

Under HKFRS 15, the Group determines whether the property has no alternative use to the Group and whether the Group has an enforceable right to payment from the customer for performance completed to date, taking into account the terms of the contract, the Group's business practice and the legal and regulatory environment where the Group's property development activities operate.

When the property has no alternative use to the Group and the Group has an enforceable right to payment from the customer for performance completed to date, control over the property is regarded as transferred over time. In other cases, control over the property is regarded as transferred at a point in time.

Notes to the Financial Statements (*continued*)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.17 Recognition of revenue and other income (Continued)

A. Policies applicable from 1 January 2018 (Continued)

(i) Sales of properties (Continued)

If control of the property is transferred over time, revenue is recognized over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognized at a point in time when the customer obtains control of the property. The progress toward complete satisfaction of the performance obligation is measured using input method, which is determined by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract.

If control of the property is transferred at a point in time, revenue is recognized when the customer obtains the physical possession or the legal title of the completed property and the Group has present right to payment and the collection of the consideration is probable.

(ii) Hotel operation and other ancillary services

Service fee income in relation to hotel operation and other ancillary services is recognized when the relevant services are provided to the customers.

(iii) Other sources of income

— Rental income is recognized on a straight-line basis over the periods of the respective tenancies.

— Interest income is accrued on a time basis using the effective interest method by applying applicable interest rate on (i) the amortized cost (i.e. gross carrying amount less loss allowance for credit-impaired financial assets); or (ii) the gross carrying amount for non credit-impaired financial assets.

B. Policies applied until 31 December 2017

Revenue and other income are recognized when it is probable that the economic benefits will flow to the Group and when the income can be measured reliably on the following bases:

(i) Sale of properties is recognized as revenue when all of the following criteria are met:

- the significant risks and rewards of ownership of the properties are transferred to buyers;
- neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the properties are retained;
- 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.

Notes to the Financial Statements (*continued*)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.17 Recognition of revenue and other income (Continued)

B. Policies applied until 31 December 2017 (Continued)

(i) (Continued)

Sale of properties is usually taken at the time when the construction of the respective properties has been completed and the properties have been delivered to the buyers.

Deposits received on properties sold prior to the date of revenue recognition are included in the statement of financial position as sales deposits received under current liabilities.

- (ii) Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.
- (iii) Rental income is recognized on a straight-line basis over the periods of the respective tenancies.
- (iv) Service fee income in relation to hotel operation and other ancillary services is recognized when such services are provided to the customers.
- (v) Other service fee income are recognized on an appropriate basis over the relevant period in which the services are rendered.

3.18 Contract costs, contract assets and contract liabilities (Policies applicable from 1 January 2018)

Contract costs

Contract costs are either the incremental costs of obtaining a contract with a customer or the costs to fulfil a contract with a customer which are not capitalized as inventories or property, plant and equipment.

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. Incremental costs of obtaining a contract are capitalized when incurred if the costs relate to revenue which will be recognized in a future reporting period and the costs are expected to be recovered. Other costs of obtaining a contract are expensed when incurred.

Costs to fulfil a contract are capitalized if the costs relate directly to an existing contract or to a specifically identifiable anticipated contract; generate or enhance resources that will be used to provide goods or services in the future; and are expected to be recovered. Costs that relate directly to an existing contract or to a specifically identifiable anticipated contract may include direct labour, direct materials, allocations of costs, costs that are explicitly chargeable to the customer and other costs that are incurred only because the Group entered into the contract (for example, payments to subcontractors). Other costs of fulfilling a contract, which are not capitalized as inventories, or property, plant and equipment, are expensed as incurred.

Notes to the Financial Statements (*continued*)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.18 Contract costs, contract assets and contract liabilities (Policies applicable from 1 January 2018)

(Continued)

Contract costs (Continued)

Capitalized contract costs are stated as cost less accumulated amortization and impairment losses. Impairment losses are recognized to the extent that the carrying amount of the contract cost asset exceeds the net of (i) remaining amount of consideration that the Group expects to receive in exchange for the goods or services to which the asset relates, less (ii) any costs that relate directly to providing those goods or services that have not yet been recognized as expenses.

Amortization of capitalized contract costs is charged to profit or loss on a systematic basis that is consistent with the transfer to the customer of goods or services to which the costs relate. The accounting policy for revenue recognition is set out in note 3.17A.

Contract assets and contract liabilities

A contract assets is recognized when the Group recognizes revenue (see note 3.17A) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for ECL in accordance with the policy set out in note 3.13A(ii). Loss allowance for contract assets is measured at an amount equal to lifetime ECL. Contract assets are reclassified to receivable when the right to the consideration has become unconditional (note 3.19).

A contract liability is recognized when the customer pays consideration before the Group recognizes the related revenue (see note 3.17A). A contract liability would also be recognized if the Group has an unconditional right to receive consideration before the Group recognizes the related revenue. In such cases, a corresponding receivable would also be recognized.

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

3.19 Trade and other receivables (Policy applicable from 1 January 2018)

A receivable is recognized when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognized before the Group has an unconditional right to receive consideration, the amount is presented as a contract assets (see note 3.18). Receivables are stated as amortized cost using the effective interest method less allowance for credit losses (see note 3.13A(ii)).

3.20 Trade and other payables (Policy applicable from 1 January 2018)

Trade and other payables are initially recognized at fair value. Except for financial guarantee liabilities measured in accordance with note 3.13A(vi), trade and other payables are subsequently stated at amortized cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

Retention monies represent amounts of progress billings which are payable to contractors/subcontractors and are due for settlement at the time specified in the contracts. They are classified as current liabilities as the Group expects to settle them within its normal operating cycle.

Notes to the Financial Statements (*continued*)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.21 Foreign currencies

The financial statements are presented in Hong Kong Dollars ("HK\$"), which is also the functional currency of the Company. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. In the separate financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the rates ruling at the end of the reporting period are recognized in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated. Non-monetary items carried at fair value that are denominated in foreign currencies are re-translated at the rates prevailing on the date when the fair value was determined.

The functional currencies of certain entities of the Group are currencies other than HK\$. For the purpose of the consolidated financial statements, assets and liabilities of those entities at the end of each reporting period are translated into HK\$ at exchange rate prevailing at the end of each reporting period. Income and expense items are translated into HK\$ at the average exchange rate for the period, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. The resulting exchange differences are recognized in other comprehensive income and accumulated separately in equity in the Group's translation reserve. Such translation differences are recognized in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments arising on acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate. Exchange differences arising are recognized in the translation reserve.

3.22 Income tax

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognized assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is realized or settled and that have been enacted or substantively enacted at the end of the reporting period.

Notes to the Financial Statements (*continued*)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.22 Income tax (Continued)

An exception to the general requirement on determining the appropriate tax rate used in measuring deferred tax amount is when an investment property is carried at fair value under HKAS 40 *Investment Property*. Unless the presumption is rebutted, the deferred tax amounts on these investment properties are measured using the tax rates that would apply on sale of these investment properties at their carrying amounts at the end of the reporting period. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all the economic benefits embodied in the property over time, rather than through sale.

When different tax rates apply to different levels of taxable income, deferred tax assets and liabilities are measured using the average rates that are expected to apply to the taxable profit or tax loss of the periods in which the temporary differences are expected to reverse. The determination of the average tax rates requires an estimation of (i) when the existing temporary differences will reverse and (ii) the amount of taxable income in those years. The estimate of future taxable income includes income or loss excluding reversals of temporary differences; and reversals of existing temporary differences.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries, associates and 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.

Income taxes are recognized in profit or loss except when they relate to items recognized in other comprehensive income in which case the taxes are also recognized in other comprehensive income or when they relate to items recognized directly in equity in which case the taxes are also recognized directly in equity.

3.23 Employee benefits

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Short-term employee benefits are recognized in the year when the employees render the related service.

Defined contribution retirement plans

Contributions to defined contribution retirement plans are recognized as an expense in profit or loss when the services are rendered by the employees.

Termination benefits

Termination benefits are recognized on the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognizes restructuring costs involving the payment of termination benefits.

Notes to the Financial Statements (*continued*)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.24 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 be ready for their intended use or sale, are capitalized as part of the cost of those assets. The capitalization of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalized. Other borrowing costs are recognized as an expense in the period in which they are incurred.

Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds.

3.25 Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within equity, until they have been approved by the shareholders in a general meeting. When these dividends are approved and declared, they are recognized as a liability. Interim dividends are simultaneously proposed and declared and consequently, are recognized immediately as a liability when they are proposed and declared.

3.26 Provisions and contingent liabilities

Provision is recognized when the Group has a present obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. When the effect of discounting is material, provision is stated at the present value of the expenditure expected to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss. All provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future uncertain events not wholly within the control of the Group, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

3.27 Related parties

- (a) A person or a close member of that person's family is related to the Group if that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of key management personnel of the Group or the Company's parent.

Notes to the Financial Statements (*continued*)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.27 Related parties (Continued)

- (b) An entity is related to the Group if any of the following conditions applies:
- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third party and the other party is an associate of the third party.
 - (v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

- (a) that person's children and spouse or domestic partner;
- (b) children of that person's spouse or domestic partner; and
- (c) dependents of that person or that person's spouse or domestic partner.

3.28 Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the chief operating decision-maker (i.e. the most senior executive management) for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations. Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

Notes to the Financial Statements (*continued*)

4. CRITICAL ACCOUNTING JUDGMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, 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 ongoing 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.

4.1 Key sources of estimation uncertainty

In addition to information disclosed elsewhere in the financial statements, key sources of estimation uncertainty that have a significant risk of resulting a material adjustment to the carrying amounts of assets and liabilities within next financial year are as follows:

(a) Fair value of investment properties

As disclosed in note 14, the fair values of the investment properties as at 31 December 2018 were estimated by the directors of the Company with reference to the property valuation as at 31 December 2018 conducted by independent professional valuers. The valuation was based on certain assumptions which are subject to uncertainty and might materially differ from the actual results. In making the estimates, the Group considers information from current prices in an active market for similar properties and uses assumptions that are mainly based on market conditions existing at the end of the reporting period.

(b) Net realizable value of inventories of properties

Include in the consolidated statement of financial position at 31 December 2018 is inventories of properties with an aggregate carrying amount of approximately HK\$67,682,662,000 (2017: HK\$54,414,394,000), which are stated at lower of cost and net realizable value. Management determines the net realizable value of the underlying properties which involves, inter-alia, considerable estimation based on analysis of current market price of properties of a comparable standard and location, construction costs to be incurred to complete the development based on existing asset structure, contractor fee and construction material price lists and a forecast of future sales taking into account economic factors and government measures. If the actual net realizable values of the underlying properties are less than the previous estimations as a result of changes in market condition, government measures and policies and/or significant variation in the budgeted development cost, allowance for inventories of properties may result.

(c) Loss allowance for financial assets

The measurement of impairment losses under HKFRS 9 across all categories of financial assets requires judgment, in particular, the assessment of a significant increase in credit risk and credit-impaired financial asset as well as the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

Notes to the Financial Statements (*continued*)

4. CRITICAL ACCOUNTING JUDGMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

4.1 Key sources of estimation uncertainty (Continued)

(c) **Loss allowance for financial assets (Continued)**

At each reporting date, the Company assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The Company considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and also, forward-looking analysis.

Details of the key assumptions and inputs used are set out in note 49.3.

(d) **Estimates of current tax and deferred tax**

The Group is subject to taxation in various jurisdictions. Significant judgment is required in determining the amount of the provision for taxation and the timing of payment of the related taxation, particularly for PRC land appreciation tax ("LAT"), and the implementation of these taxes varies amongst various PRC cities. The Group has not finalized its LAT calculation and payments with certain local tax authorities in the PRC. Accordingly, significant estimation is required in determining the amount of the land appreciation and its related LAT. The Group recognized income tax and LAT based on management's best estimates according to their understanding of the tax rules. The final tax outcome could be different from the amounts that were initially recorded, and these differences will impact the tax expense in the period in which the tax calculations are finalized with the local tax authorities.

4.2 Critical judgments in applying accounting policies

(a) **Recognition of revenue from sales of properties**

Revenue from sales of properties held for sale is recognized over time when the property unit does not have an alternative use to the Group and the Group has an enforceable right to payment from the customer for performance completed to date; and in other cases, revenue from sale of properties is recognized at a point in time when the customer obtains control over the property.

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 customer and thus the property unit does not have an alternative use to the Group. However, whether the Group has an enforceable right to payment from the customers for performance completed to date depends on the terms of sales contract and the interpretation of the applicable laws that apply to the contract. Such determination requires significant judgments. Management uses judgment, with reference to legal advice, to classify the sales contracts into those with enforceable right to payment and those without the right.

For those properties with control being transferred over time, the Group recognizes revenue over time based on the progress towards complete satisfaction of performance obligation at the end of the reporting period using input method, which is determined with reference the contract costs incurred to date as a percentage of total estimated costs for each contract. The Group estimates the development cost of each project based on the development plan as well as contractor fee and construction material price lists, taking into account economic factors. The Group allocates the development cost of the property project to each property unit based on types of properties, gross and saleable floor area and other relevant factors.

Notes to the Financial Statements (*continued*)

4. CRITICAL ACCOUNTING JUDGMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

4.2 Critical judgments in applying accounting policies (Continued)

(a) **Recognition of revenue from sales of properties (Continued)**

Significant judgment and estimations are required in determining the estimated development costs and assessing the progress towards complete satisfaction of the performance obligation at the end of the reporting period. Estimated development costs are supported by cost budgets which were prepared by management on the basis of quotations provided by contractors/subcontractors/suppliers as well as from past experiences. The Group has set up policies and procedures in relation to cost budgeting and progress assessment. Management reviews the estimated development costs, costs incurred to date and costs to be incurred as well as the development progress regularly and when necessary, revises the estimated development cost. Notwithstanding that management regularly reviews and revises cost budgets when the construction progresses, actual development costs and gross profit margin may be higher or lower than the estimates and that will affect the revenue and gross profit recognized in the financial statements.

(b) **Joint arrangement**

As at 31 December 2018, the Group holds certain percentage of the registered capital/paid up capital and voting rights of certain joint arrangements. The contractual arrangements confer joint control over the relevant activities of the joint arrangements to the Group and at least one other party. In addition, the joint arrangements are structured as limited companies and provide the Group and the parties to the arrangements with rights to the net assets of the limited companies under the arrangements. Therefore, based on the judgment of the management, these arrangements are classified as joint ventures. Further details of the Group's joint arrangements are set out in note 19.

5. REVENUE

The principal activities of the Group are disclosed in note 1. Revenue derived from the Group's principal activities comprises of the followings:

	2018 HK\$'000	2017 HK\$'000
Revenue from contracts with customers within the scope of HKFRS 15		
— Sales of properties	25,274,071	20,004,650
— Hotel and other services income	73,874	66,567
	25,347,945	20,071,217
Revenue from other sources		
— Property rental income	223,361	206,614
Total revenue	25,571,306	20,277,831

Notes to the Financial Statements (*continued*)

5. REVENUE (CONTINUED)

As at 31 December 2018, the aggregate amount of transaction price allocated to the remaining performance obligations under the Group's existing contract is HK\$45,638,938,000. This amount represents revenue expected to be recognized in the future from pre-sale contracts for properties under development entered into by the customers with the Group. The Group will recognize the expected revenue in future when or as the construction work is completed or when the properties are assigned to the customers, where appropriate, which is expected to occur over the next 12 to 36 months.

The Group has applied the practical expedient under HKFRS 15 to contracts in relation to hotel operations and other ancillary services such that the above information does not include information about revenue that the Group will be entitled to when it satisfies the remaining performance obligations as in general, those contracts in relation to hotel operation and other ancillary services have an original expected duration of one year or less.

6. SEGMENT INFORMATION

The operating segments are reported in a manner consistent with the way in which information is reported internally to the Group's most senior management for the purposes of resource allocation and assessment of segment performance. The Group has identified two reportable segments and other segment for its operating segments as follows:

Property investment and development	—	This segment constructs residential and commercial properties in the PRC. Part of the business is carried out through associates and joint ventures.
Property leasing	—	This segment holds commercial units located in the PRC for leasing to generate rental income and gain from appreciation in the properties' values in the long-term. Part of the business is carried out through a joint venture.
Other segment	—	This segment mainly engages in hotel operations and generates service fee income in relation to hotel operation and other ancillary services.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments. Segment revenue represents revenue from external customers and there were no inter-segment sales between different operating segments during the year or in prior year. Segment profit/loss includes the Group's share of profit/loss arising from the activities of the Group's associates and joint ventures. Reportable segment profit/loss excludes corporate income and expenses (including finance costs) from the Group's profit/loss before income tax. Corporate income and expenses are income and expenses incurred by corporate headquarters which are not allocated to the operating segments. Each of the operating segments is managed separately as the resources requirement of each of them is different.

Segment assets include all assets with the exception of tax assets and corporate assets, including certain cash and bank balances and other assets which are not directly attributable to the business activities of the operating segments as these assets are managed on a group basis.

Segment liabilities include trade and other payables, accrued liabilities, amounts due to associates, joint ventures and non-controlling interests and other liabilities directly attributable to the business activities of the operating segments and exclude tax liabilities, corporate liabilities and liabilities such as borrowings, amounts due to related companies and guaranteed notes payable that are managed on a group basis.

Notes to the Financial Statements (*continued*)

6. SEGMENT INFORMATION (CONTINUED)

Disaggregation of revenue by timing of revenue recognition

Disaggregation of revenue from contracts with customers by timing of revenue recognition is set out as follows:

	Property investment and development HK\$'000	Property leasing HK\$'000	Other segment HK\$'000	Consolidated HK\$'000
For the year ended 31 December 2018				
Revenue from contracts with customers disaggregated by timing of revenue recognition				
— Goods transferred over time	4,255,652	–	–	4,255,652
— Goods transferred at a point in time	21,018,419	–	–	21,018,419
— Services transferred over time	–	–	73,874	73,874
	25,274,071	–	73,874	25,347,945
Revenue from other sources				
— Rental income	–	223,361	–	223,361
	25,274,071	223,361	73,874	25,571,306

	Property investment and development HK\$'000	Property leasing HK\$'000	Other segment HK\$'000	Consolidated HK\$'000
For the year ended 31 December 2017				
Revenue from contracts with customers disaggregated by timing of revenue recognition				
— Goods transferred at a point in time	20,004,650	–	–	20,004,650
— Services transferred over time	–	–	66,567	66,567
	20,004,650	–	66,567	20,071,217
Revenue from other sources				
— Rental income	–	206,614	–	206,614
	20,004,650	206,614	66,567	20,277,831

Notes to the Financial Statements (*continued*)

6. SEGMENT INFORMATION (CONTINUED)

Segment results, segment assets and segment liabilities

Information regarding the Group's reportable segments including the reportable segment revenue, segment profit/loss, segment assets, segment liabilities, reconciliation to revenue, profit before income tax, total assets, total liabilities and other segment information are as follows:

	Property investment and development HK\$'000	Property leasing HK\$'000	Other segment HK\$'000	Consolidated HK\$'000
For the year ended 31 December 2018				
Reportable segment revenue	25,274,071	223,361	73,874	25,571,306
Reportable segment profit/(loss)	6,268,275	167,342	(16,727)	6,418,890
Corporate income				88,729
Change in fair value of a derivative financial instrument				2,493
Finance costs				(92,266)
Other corporate expenses				(75,295)
Profit before income tax				6,342,551
As at 31 December 2018				
Reportable segment assets	109,114,549	2,948,726	1,175,670	113,238,945
Tax assets				1,451,656
Corporate assets ^				3,578,673
Total consolidated assets				118,269,274
Reportable segment liabilities	57,615,314	102,136	13,020	57,730,470
Tax liabilities				7,082,456
Borrowings				25,531,233
Amounts due to related companies				431,856
Guaranteed notes payable				7,135,733
Other corporate liabilities				78,944
Total consolidated liabilities				97,990,692

Notes to the Financial Statements (*continued*)

6. SEGMENT INFORMATION (CONTINUED)

Segment results, segment assets and segment liabilities (Continued)

	Property investment and development HK\$'000	Property leasing HK\$'000	Other segment HK\$'000	Consolidated HK\$'000
For the year ended 31 December 2017				
Reportable segment revenue	20,004,650	206,614	66,567	20,277,831
Reportable segment profit/(loss)	2,951,018	365,664	(28,454)	3,288,228
Corporate income				671
Change in fair value of a derivative financial instrument				1,974
Finance costs				(32,500)
Other corporate expenses				(76,222)
Profit before income tax				3,182,151
As at 31 December 2017				
Reportable segment assets	88,483,940	3,182,074	1,191,963	92,857,977
Tax assets				1,728,572
Corporate assets [^]				737,197
Total consolidated assets				95,323,746
Reportable segment liabilities	42,310,717	95,875	15,354	42,421,946
Tax liabilities				6,062,672
Borrowings				24,211,838
Amounts due to related companies				4,942,323
Guaranteed notes payable				3,159,180
Other corporate liabilities				62,773
Total consolidated liabilities				80,860,732

[^] Corporate assets as at 31 December 2018 mainly included property, plant and equipment, prepaid lease rental on land, trade and other receivables, prepayments and deposits and cash and bank balances of HK\$138,542,000 (2017: HK\$155,155,000), HK\$113,755,000 (2017: HK\$123,022,000), HK\$59,333,000 (2017: HK\$395,525,000) and HK\$3,262,575,000 (2017: HK\$61,518,000) respectively which are managed on a group basis.

Notes to the Financial Statements (*continued*)

6. SEGMENT INFORMATION (CONTINUED)

Segment results, segment assets and segment liabilities (Continued)

	Property investment and development HK\$'000	Property leasing HK\$'000	Other segment HK\$'000	Corporate HK\$'000	Consolidated HK\$'000
Other information					
For the year ended					
31 December 2018					
Interest income	304,508	1,453	129	88,728	394,818
Depreciation and amortization	7,318	5,470	27,141	14,898	54,827
Gain on disposal of investment properties	–	2,173	–	–	2,173
Gain on disposal of property, plant and equipment	52	–	6	–	58
Write-off of property, plant and equipment	11	–	6	–	17
Change in fair value of a derivative financial instrument	–	–	–	2,493	2,493
Share of profit of associates	12,239	–	–	–	12,239
Share of profit of joint ventures	261,133	4,994	–	–	266,127
Additions to specified non-current assets #	6,484	416	65,761	1,214	73,875
As at 31 December 2018					
Interests in associates	26,983	–	–	–	26,983
Interests in joint ventures	573,117	124,322	–	–	697,439

Notes to the Financial Statements (*continued*)

6. SEGMENT INFORMATION (CONTINUED)

Segment results, segment assets and segment liabilities (Continued)

	Property investment and development HK\$'000	Property leasing HK\$'000	Other segment HK\$'000	Corporate HK\$'000	Consolidated HK\$'000
Other information					
For the year ended					
31 December 2017					
Interest income	176,168	1,264	43	671	178,146
Depreciation and amortization	7,903	5,445	26,257	15,202	54,807
Fair value gain on investment properties	–	191,830	–	–	191,830
Gain on disposal of investment properties	–	542	–	–	542
Gain on disposal of property, plant and equipment	431	–	28	–	459
Write-off of property, plant and equipment	194	–	6,409	–	6,603
Change in fair value of a derivative financial instrument	–	–	–	1,974	1,974
Write-off of available-for-sale financial assets	–	–	535	–	535
Share of profit of associates	57,153	–	–	–	57,153
Share of (loss)/profit of joint ventures	(28,734)	18,880	–	–	(9,854)
Additions to specified non-current assets #	58,011	46	232,697	218	290,972
As at 31 December 2017					
Interests in associates	135,907	–	–	–	135,907
Interests in joint ventures	323,845	125,284	–	–	449,129

Including additions to the Group's investment properties, other properties, plant and equipment, prepaid lease rental on land, intangible assets, interests in associates and joint ventures (i.e. "specified non-current assets").

Notes to the Financial Statements (*continued*)

6. SEGMENT INFORMATION (CONTINUED)

Geographical information

All of the Group's revenue is derived from activities conducted in the PRC excluding Hong Kong. Accordingly, no analysis of the Group's revenue by geographical locations is presented.

An analysis of the Group's specified non-current assets by geographical locations, determined based on physical location of the assets or location of operations in case of interests in associates and joint ventures, is as follows:

	2018 HK\$'000	2017 HK\$'000
Hong Kong	1,339	513
Other regions of the PRC	4,860,050	4,940,647
	4,861,389	4,941,160

Information about major customer

None of the customers individually contributed 10% or more of the Group's revenue for the years ended 31 December 2018 and 2017.

7. OTHER INCOME

	2018 HK\$'000	2017 HK\$'000
Interest income on:		
Bank deposits	339,647	173,658
Amount due from a joint venture	15,140	4,488
Amounts due from non-controlling interests	40,031	–
Total interest income on financial assets measured at amortized cost	394,818	178,146
Sundry income	42,939	20,483
	437,757	198,629

Notes to the Financial Statements (*continued*)

8. PROFIT BEFORE INCOME TAX

	2018 HK\$'000	2017 HK\$'000
Profit before income tax is arrived at after charging/(crediting):		
Amortization:		
Prepaid lease rental on land	9,495	9,256
Intangible assets [#]	4,606	4,490
Depreciation of property, plant and equipment	40,726	41,061
Total amortization and depreciation	54,827	54,807
Remuneration to auditor for audit services*:		
— Current year	2,940	2,740
Cost of sales and services provided comprise:		
— Amount of inventories recognized as expense	18,036,433	16,121,185
Net foreign exchange loss (note (a))	153,788	14,264
Operating lease charge on land and buildings	23,690	18,669
Outgoings in respect of:		
— investment properties	54,672	44,760
— others	27,656	13,381
	82,328	58,141
Net rental income from:		
— investment properties	(114,945)	(133,458)
— others	(26,088)	(15,015)
	(141,033)	(148,473)
Staff costs (note (b))	704,450	580,502
Gain on disposal of property, plant and equipment	58	459
Write-off of property, plant and equipment	17	6,603
Business tax and other levies	363,842	451,916

[#] included in "Cost of sales and services provided" in the consolidated income statement

* fees for non-audit services rendered by the auditor amounted to HK\$350,000 (2017: HK\$530,000)

Notes to the Financial Statements (*continued*)

8. PROFIT BEFORE INCOME TAX (CONTINUED)

Notes:

(a) Net foreign exchange loss for current year amounting to HK\$153,788,000 included net exchange loss of HK\$140,850,000 arising from reduction of registered capital of three project companies established in the PRC in the year, which was included in "other operating expenses" in the consolidated income statement as it is non-recurrent in nature whereas the remaining exchange loss of HK\$12,938,000 (2017: HK\$14,264,000) was included in "administrative expenses".

(b) Staff costs (including directors' emoluments) comprise:

	2018 HK\$'000	2017 HK\$'000
Salaries, allowances and other benefits	659,891	551,947
Contributions to defined contribution retirement plans (note 41)	44,559	28,555
	704,450	580,502

9. FINANCE COSTS

	2018 HK\$'000	2017 HK\$'000
Interest on bank borrowings, overdrafts and other borrowings	1,041,206	865,288
Interest on amount due to an associate	–	15,263
Interest on amount due to non-controlling interests	–	2,218
Interest on amount due to related companies	48,662	182,628
Imputed interest expense on guaranteed notes payable (note 34)	287,671	169,548
Total interest expense on financial liabilities measured at amortized cost	1,377,539	1,234,945
Less: Amount capitalized (note)	(1,285,273)	(1,202,445)
	92,266	32,500

Note: Borrowing costs capitalized during the year arose from the general borrowing pool are calculated by applying an average capitalization rate of 4.50% (2017: 3.58%) per annum to expenditure on qualifying assets.

Notes to the Financial Statements (*continued*)

10. INCOME TAX EXPENSE

	2018 HK\$'000	2017 HK\$'000
Current tax for the year		
Hong Kong profits tax	–	–
Other regions of the PRC		
— Enterprise income tax (“EIT”)	1,857,637	1,168,879
— LAT	2,248,614	1,027,643
	4,106,251	2,196,522
Under provision in prior years		
Other regions of the PRC	2,713	2,035
Deferred tax (note 35)	(267,949)	(278,140)
	3,841,015	1,920,417

For the year ended 31 December 2017, Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the year, if any. On 21 March 2018, the Hong Kong Legislative Council passed “The Inland Revenue (Amendment) (No. 7) Bill 2017” (the “Bill”) which introduces the two-tiered profits tax rates regime. The Bill became law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of qualifying entities will be taxed at 8.25% whereas profits above HK\$2 million will be taxed at 16.5%. The profits of entities not qualifying for the two-tiered profit tax rates regime will continue to be taxed at a flat rate of 16.5%. The two-tiered profits tax rates regime is applicable to a nominated qualifying entity in the Group for its annual reporting periods beginning on or after 1 January 2018.

No Hong Kong profits tax has been provided in the financial statements as the Group did not derive any estimated assessable profit in Hong Kong for the current year and in prior year.

EIT arising from other regions of the PRC is calculated at 25% (2017: 25%) on the estimated assessable profits.

PRC LAT is levied at progressive rates from 30% to 60% (2017: 30% to 60%) on the estimated appreciation of land value, being the proceeds of sales of properties less deductible expenditure including cost of land use rights and development and construction expenditure.

Notes to the Financial Statements (*continued*)

10. INCOME TAX EXPENSE (CONTINUED)

The income tax expense for the year can be reconciled to profit before income tax in the consolidated income statement at applicable tax rates as follows:

	2018 HK\$'000	2017 HK\$'000
Profit before income tax	6,342,551	3,182,151
Tax on profit at the rates applicable to profits in the jurisdictions concerned	1,662,758	838,153
Expenses not deductible for tax purpose	180,148	113,639
Income not taxable for tax purpose	(16,695)	(776)
Share of results of associates	(3,060)	(14,288)
Share of results of joint ventures	(66,531)	2,464
LAT deductible for calculation of income tax	(562,153)	(254,746)
Utilization of tax losses previously not recognized	(8,873)	(16,015)
Tax effect of tax losses not recognized	43,916	74,173
Under provision in prior years	2,713	2,035
Deferred tax provided for withholding tax on distributable profits of the Group's PRC subsidiaries	200,347	226,433
Others	14,062	(296)
	1,446,632	970,776
LAT	2,394,383	949,641
Income tax expense	3,841,015	1,920,417

11. DIVIDENDS

(a) Dividends payable to owners of the Company attributable to the year:

	2018 HK\$'000	2017 HK\$'000
Interim dividend — HK\$0.03 (2017: HK\$0.01) per ordinary share	102,701	22,822
Proposed final dividend — HK\$0.112 (2017: HK\$0.03) per ordinary share (note)	383,416	102,701
	486,117	125,523

Notes:

The final dividend of HK\$0.112 (2017: HK\$0.03) per ordinary share, approximately amounting to HK\$383,416,000 (2017: HK\$102,701,000), has been proposed by the directors and is subject to approval by the shareholders of the Company in the forthcoming annual general meeting.

The final dividend in respect of financial year ended 31 December 2017 of HK\$102,701,000 was calculated based on 3,423,360,000 ordinary shares, which is the total number of ordinary shares in issue upon the completion of the Rights Issue as defined and further detailed in note 36.

Notes to the Financial Statements (*continued*)

11. DIVIDENDS (CONTINUED)

(b) Dividends payable to owners of the Company attributable to the previous financial year:

	2018 HK\$'000	2017 HK\$'000
Final dividend in respect of previous financial year, approved and paid during the year of HK\$0.03 (2017: HK\$0.02) per ordinary share	102,701	45,645

12. EARNINGS PER SHARE

The calculations of basic earnings per share attributable to owners of the Company are based on the following data:

	2018 HK\$'000	2017 HK\$'000
Earnings		
Profit for the year attributable to owners of the Company	2,427,326	1,271,398

	2018 '000	2017 '000 (Restated)
Weighted average number of ordinary shares		
Weighted average number of ordinary shares in issue during the year	3,322,354	2,370,018

The weighted average number of ordinary shares used for the purposes of calculating the basic earnings per share represents the weighted average number of ordinary shares in issue in the respective years, after taking into account of the bonus element in the Rights Issue which was completed on 5 February 2018 as set out in note 36.

The comparative figures for the basic earnings per share for the year ended 31 December 2017 are restated to reflect the effect of the aforementioned bonus element.

Diluted earnings per share is same as the basic earnings per share as there have been no dilutive potential ordinary shares in existence during the year or prior year.

Notes to the Financial Statements (*continued*)

13. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS

Directors' emoluments disclosed pursuant to Section 383 of the Hong Kong Companies Ordinance, Cap. 622, and the Companies (Disclosure of Information about Benefits of Directors) Regulation, Cap. 622G, are as follows:

Directors' emoluments

	Fees HK\$'000	Salaries, allowances and other benefits HK\$'000	Discretionary bonus HK\$'000	Retirement fund contribution HK\$'000	Total HK\$'000
For the year ended 31 December 2018					
<i>Executive directors</i>					
Mr. Zhang Guiqing	–	2,544	8,131	258	10,933
Mr. Wang Man Kwan, Paul	–	2,997	2,150	150	5,297
Mr. Yang Lin	–	1,774	5,780	211	7,765
<i>Non-executive directors</i>					
Mr. Yan Jianguo	–	–	–	–	–
Mr. Yung Kwok Kee, Billy	250	–	–	–	250
<i>Independent non-executive directors</i>					
Dr. Chung Shui Ming, Timpson	250	110	–	–	360
Mr. Lam Kin Fung, Jeffrey	250	110	–	–	360
Mr. Lo Yiu Ching, Dantes	250	110	–	–	360
	1,000	7,645	16,061	619	25,325

Notes to the Financial Statements (*continued*)

13. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS (CONTINUED)

Directors' emoluments (Continued)

	Fees HK\$'000	Salaries, allowances and other benefits HK\$'000	Discretionary bonus HK\$'000	Retirement fund contribution HK\$'000	Total HK\$'000
For the year ended 31 December 2017					
<i>Executive directors</i>					
Mr. Zhang Guiqing	–	1,056	8,325	18	9,399
Mr. Wang Man Kwan, Paul	–	2,907	2,050	18	4,975
Mr. Yang Lin (note (b))	–	484	6,292	14	6,790
Mr. Xiang Hong (note (c))	–	19	–	–	19
<i>Non-executive directors</i>					
Mr. Yan Jianguo (note (a))	664	–	–	–	664
Mr. Yung Kwok Kee, Billy	250	–	–	–	250
Mr. Xiao Xiao (note (d))	533	–	–	–	533
<i>Independent non-executive directors</i>					
Dr. Chung Shui Ming, Timpson	250	110	–	–	360
Mr. Lam Kin Fung, Jeffrey	250	110	–	–	360
Mr. Lo Yiu Ching, Dantes	250	110	–	–	360
	2,197	4,796	16,667	50	23,710

Notes:

- (a) Mr. Yan Jianguo was appointed as non-executive director with effect from 13 June 2017.
- (b) Mr. Yang Lin was appointed as executive director with effect from 21 March 2017.
- (c) Mr. Xiang Hong resigned as executive director with effect from 10 January 2017.
- (d) Mr. Xiao Xiao resigned as non-executive director with effect from 12 June 2017.

There was no arrangement under which a director waived or agreed to waive any emoluments during the year (2017: nil).

Notes to the Financial Statements (*continued*)

13. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS (CONTINUED)

Five highest paid individuals

The five individuals with the highest emoluments in the Group include three (2017: three) directors, whose emoluments details are included in the disclosures above. The emoluments of the remaining two (2017: two) highest paid individuals for the years ended 31 December 2018 and 2017 were as follows:

	2018 HK\$'000	2017 HK\$'000
Salaries, allowances and other benefits	2,768	1,852
Discretionary bonus	8,669	6,934
Retirement fund contributions	294	76
	11,731	8,862

Their emoluments were within the following bands:

	Number of individuals	
	2018	2017
HK\$3,500,001–HK\$4,000,000	–	1
HK\$5,000,001–HK\$5,500,000	1	1
HK\$6,000,001–HK\$6,500,000	1	–

No emolument was paid by the Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office (2017: nil).

Notes to the Financial Statements (*continued*)

14. INVESTMENT PROPERTIES

	2018 HK\$'000	2017 HK\$'000
Fair value		
At 1 January	2,835,203	2,485,859
Translation adjustment	(128,823)	179,925
Disposals (note (a))	(38,804)	(22,411)
Change in fair value (note (b))	–	191,830
At 31 December	2,667,576	2,835,203

Notes:

- (a) During the year ended 31 December 2018, the Group disposed of certain investment properties with aggregate carrying value of HK\$38,804,000 (2017: HK\$22,411,000) at aggregate consideration of HK\$40,977,000 (2017: HK\$22,953,000) and thus recognized gain on disposal of investment properties amounting to HK\$2,173,000 (2017: HK\$542,000).
- (b) The fair value of the investment properties as at 31 December 2018 and 2017 is a level 3 recurring fair value measurement, which uses significant unobservable inputs (i.e. inputs not derived from market data).

For the year ended 31 December 2018, no fair value gain or loss arose from remeasurement of the Group's investment properties. The fair value gain arising from remeasurement of the investment properties for the year ended 31 December 2017 amounting to HK\$191,830,000 represented an unrealized gain relating to those investment properties as at 31 December 2017.

- (c) The fair values of the Group's investment properties as at 31 December 2018 were estimated by the directors with reference to the property valuation as at 31 December 2018 conducted by CHFT Advisory and Appraisal Limited.

The fair values of the Group's investment properties as at 31 December 2017 were determined by the directors with reference to the property valuation conducted on 31 October 2017 by Crowe Horwath First Trust Appraisal Pte. Ltd., and taking into account market development since the valuation date up to 31 December 2017.

CHFT Advisory and Appraisal Limited and Crowe Horwath First Trust Appraisal Pte. Ltd. are independent firms of professionally qualified valuers and have appropriate qualifications and recent experiences in the valuation of similar properties in nearby location.

Notes to the Financial Statements (*continued*)

14. INVESTMENT PROPERTIES (CONTINUED)

Notes: (Continued)

(c) (Continued)

Below is a summary of the valuation techniques used and the key inputs to the valuation:

Properties	Location	Valuation techniques	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value
China Overseas International Center *	Beijing	Direct comparison approach: — For office units, shops and carparks	Selling price per unit of market comparables, taking into account differences such as age, location and individual factors including road frontage, size of property and design	Office units and shops: Renminbi ("RMB") 33,279 to RMB57,710 per square meter ("sq.m.") (2017: RMB39,153 to RMB58,828 per sq.m.) Car parks: RMB278,481 per unit (2017: RMB306,962 per unit)	The higher the selling price per unit, the higher the fair value
			Income approach: Term and reversionary approach — For office units and shops	Term yield, taking into account of yield generated from comparable properties and adjustment to reflect the certainty of term income secured and to be received Reversionary yield taking into account annual unit market rental income and unit market value of comparable properties	6.3% to 7.3% (2017: 6.3% to 7.3%) 6.8% to 7.8% (2017: 6.8% to 7.8%)
		Monthly rent, using direct market comparables and taking into account differences such as age, location and individual factors including road frontage, size of property and design	RMB184 to RMB419 per sq. m. (2017: RMB207 to RMB381 per sq. m.)	The higher the monthly rent, the higher the fair value	
		Vacancy rate, using direct market comparables and taking into account differences such as age, location and individual factors including road frontage, size of property and design	8.5% to 62.0% (2017: 15.9% to 60.8%)	The higher the vacancy rate, the lower the fair value	
China Overseas Building (No. 9 Office Building) *	Jilin	Direct comparison approach	Selling price per unit of market comparables, taking into account differences such as age, location and individual factors including road frontage, size of property and design	Office units: RMB6,640 per sq.m. (2017: office units and shops: value RMB5,971 to RMB9,051 per sq.m.) Car parks: RMB44,792 per unit (2017: RMB145,000 per unit)	The higher the selling price per unit, the higher the fair value
CITIC Building (office units)	Shantou	Direct comparison approach	Selling price per unit of market comparables, taking into account differences such as age, location and individual factors including road frontage, size of property and design	Office units: RMB5,761 per sq.m. (2017: RMB5,761 per sq.m.)	The higher the selling price per unit, the higher the fair value
Jin Xin Building (office units)	Shantou	Direct comparison approach	Selling price per unit of market comparables, taking into account differences such as age, location and individual factors including road frontage, size of property and design	Office units: RMB6,336 per sq.m. (2017: RMB6,336 per sq.m.)	The higher the selling price per unit, the higher the fair value

* comprise office units, shops and carparks

Fair value measurements are based on the best use of the investment properties, which does not differ from their actual use.

Under the direct comparison approach, fair value is estimated by reference to the selling prices of comparable properties in close proximity which have been adjusted for differences in key attributes of the properties being valued and the comparable properties such as property age, size, characteristics and facilities.

Under the income approach: term and reversionary approach, fair value is estimated by taking into account the current passing rents of the properties and the reversionary potentials of the tenancies.

- (d) The investment properties are leased to third parties and related companies under operating leases to earn rental income, further details of which are included in note 43.
- (e) As at 31 December 2018 and 2017, none of the Group's investment properties were pledged as securities for the borrowings and banking facilities of the Group.

Notes to the Financial Statements (*continued*)

15. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HK\$'000	Leasehold improvements HK\$'000	Furniture, fixtures and office equipment HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
COST						
At 1 January 2017	498,401	4,084	57,166	28,966	376,732	965,349
Translation adjustment	34,710	–	4,261	2,325	34,023	75,319
Additions	5,179	–	46	1,033	230,472	236,730
Disposals	–	–	–	(170)	–	(170)
Write-off	(6,370)	–	(468)	(271)	–	(7,109)
At 31 December 2017 and 1 January 2018	531,920	4,084	61,005	31,883	641,227	1,270,119
Translation adjustment	(24,321)	–	(3,149)	(1,648)	(32,049)	(61,167)
Additions	14	1,214	6,948	359	65,340	73,875
Disposals	–	–	(171)	(237)	–	(408)
Write-off	–	(4,084)	(2,522)	(64)	–	(6,670)
At 31 December 2018	507,613	1,214	62,111	30,293	674,518	1,275,749
DEPRECIATION						
At 1 January 2017	4,994	3,257	11,118	18,461	–	37,830
Translation adjustment	1,233	–	1,238	1,826	–	4,297
Depreciation provided	27,597	817	6,256	6,391	–	41,061
Write-off	–	–	(427)	(79)	–	(506)
At 31 December 2017 and 1 January 2018	33,824	4,074	18,185	26,599	–	82,682
Translation adjustment	(2,750)	–	(1,153)	(1,537)	–	(5,440)
Depreciation provided	31,053	10	6,228	3,435	–	40,726
Disposals	–	–	(157)	(194)	–	(351)
Write-off	–	(4,084)	(2,505)	(64)	–	(6,653)
At 31 December 2018	62,127	–	20,598	28,239	–	110,964
NET CARRYING AMOUNT						
At 31 December 2018	445,486	1,214	41,513	2,054	674,518	1,164,785
At 31 December 2017	498,096	10	42,820	5,284	641,227	1,187,437

As at 31 December 2018, owned-occupied properties (including prepaid lease rental on land) with net carrying amount of HK\$251,223,000 (2017: HK\$394,684,000) were pledged as securities for the borrowings and banking facilities of the Group (note 42).

Notes to the Financial Statements (*continued*)

16. PREPAID LEASE RENTAL ON LAND

	2018 HK\$'000	2017 HK\$'000
Carrying amount at 1 January	334,929	321,914
Translation adjustment	(15,025)	22,271
Amortization charged	(9,495)	(9,256)
Carrying amount at 31 December	310,409	334,929
Analyzed into:		
Non-current portion included in non-current assets	301,287	325,367
Current portion included in current assets	9,122	9,562
	310,409	334,929

17. INTANGIBLE ASSETS

	Shopping mall operating right HK\$'000
COST	
At 1 January 2017	66,273
Translation adjustment	5,443
At 31 December 2017 and 1 January 2018	71,716
Translation adjustment	(3,819)
At 31 December 2018	67,897
AMORTIZATION AND IMPAIRMENT	
At 1 January 2017	54,354
Translation adjustment	4,755
Amortization charged	4,490
At 31 December 2017 and 1 January 2018	63,599
Translation adjustment	(3,627)
Amortization charged	4,606
At 31 December 2018	64,578
NET CARRYING AMOUNT	
At 31 December 2018	3,319
At 31 December 2017	8,117

Notes to the Financial Statements (*continued*)

18. INTERESTS IN ASSOCIATES

	2018 HK\$'000	2017 HK\$'000
Share of net assets	26,983	135,907

Details of the Group's associates as at 31 December 2018 are set out in note 51.

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2018 HK\$'000	2017 HK\$'000
For the year ended 31 December		
Share of the associates' profit for the year	12,239	57,153
Share of the associates' other comprehensive income	3,275	6,923
Share of the associates' total comprehensive income	15,514	64,076
Dividends received from associates	124,438	–
As at 31 December		
Aggregate carrying amount of the Group's interests in associates	26,983	135,907

19. INTERESTS IN JOINT VENTURES

	2018 HK\$'000	2017 HK\$'000
Share of net assets	697,439	449,129
Less: Impairment	–	–
	697,439	449,129

As at 31 December 2018 and 2017, the Group had equity interests in 上海金鶴數碼科技發展有限公司 ("Shanghai Jinhe"), 中海宏洋海富(合肥)房地產開發有限公司 ("Hefei Haifu") and 汕頭中海凱旋置業有限公司 ("Shantou Kaixuan"). Shanghai Jinhe is a separate structured vehicle incorporated in the PRC which is principally engaged in property investment and property leasing in Shanghai. The Group has joint control over this arrangement as unanimous consent is required from all parties to the arrangement for the relevant activities of Shanghai Jinhe.

Hefei Haifu and Shantou Kaixuan are project companies for which the Group develops property projects jointly with other parties. Pursuant to the constitutional documents, the Group and the other venturers have joint control over Hefei Haifu and Shantou Kaixuan having regard to the voting power in the shareholders' and directors' meetings.

Notes to the Financial Statements (*continued*)

19. INTERESTS IN JOINT VENTURES (CONTINUED)

The contractual arrangements in relation to the aforesaid companies provide the Group with only the rights to the net assets of the joint arrangements, with the rights to the assets and obligation for the liabilities of the joint arrangements resting primarily with these companies.

Details of the Group's joint ventures as at 31 December 2018 are set out in note 52.

Hefei Haifu is considered a material joint venture of the Group. The following table illustrates the summarized financial information in respect of Hefei Haifu adjusted for any differences in accounting policies and reconciled to the carrying amount in the financial statements:

	2018 HK\$'000	2017 HK\$'000
As at 31 December		
Cash and cash equivalents	219,972	139,107
Other current assets	2,250,785	2,656,716
Current assets	2,470,757	2,795,823
Non-current assets	202	12,316
Trade and other payables	261,712	105,267
Other current liabilities	574,203	1,483,073
Current liabilities	835,915	1,588,340
Non-current financial liabilities	570,650	598,150
Non-current liabilities	570,650	598,150
Net assets	1,064,394	621,649
As at 31 December		
Reconciliation to the Group's interests in the joint venture:		
Proportion of the Group's ownership	45%	45%
Group's share of net assets of the joint venture	478,977	279,742
Carrying amount of the investment	478,977	279,742

Notes to the Financial Statements (*continued*)

19. INTERESTS IN JOINT VENTURES (CONTINUED)

	2018 HK\$'000	2017 HK\$'000
For the year ended 31 December		
Revenue	2,225,405	–
Interest income	6,519	5,655
Depreciation and amortization	(91)	(34)
Interest expense	(4,398)	–
Income tax (expense)/credit	(502,639)	9,011
Profit/(Loss) for the year	487,709	(27,033)
Other comprehensive income for the year	(47,887)	41,689
Total comprehensive income for the year	439,822	14,656
Dividend received	–	–

The following table illustrates the aggregate financial information of the Group's joint ventures that are not individually material:

	2018 HK\$'000	2017 HK\$'000
For the year ended 31 December		
Share of the joint ventures' profit for the year	46,658	2,311
Share of the joint ventures' other comprehensive income	(10,202)	9,137
Share of the joint ventures' total comprehensive income	36,456	11,448
As at 31 December		
Aggregate carrying amount of the Group's interests in joint ventures	218,462	169,387

Notes to the Financial Statements (*continued*)

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/ AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2018 HK\$'000	2017 HK\$'000
Financial assets at fair value through other comprehensive income		
Unlisted equity instruments	1,141	–
Available-for-sale financial assets		
Unlisted equity instruments, at cost	–	1,196

The Group holds certain unlisted equity instruments for long-term strategic purposes and does not intend to dispose of them in near future.

Prior to 1 January 2018, the Group's investment in unlisted equity instruments was classified as available-for-sale financial assets and was stated at cost less impairment. Upon adoption of HKFRS 9 on 1 January 2018, the Group irrevocably designated such investment as financial assets at fair value through other comprehensive income.

During the year ended 31 December 2017, an investee was de-registered and after deducting distribution received from this investee amounting to HK\$384,000, the Group had written off the net carrying amount of the investment in this investee amounting to HK\$535,000.

21. A DERIVATIVE FINANCIAL INSTRUMENT

During the year ended 31 December 2017, the Group entered into an interest rate swap contract for a bank loan which is interest-bearing at floating rate. The notional amount of this interest rate swap contract is United States Dollars ("US\$") 40,000,000, which swaps interest rate on floating basis at 3-month London InterBank Offered Rate plus 1.515% per annum to fixed rate of 3.2% per annum. The contract period is 3 years commencing on 6 January 2017 and will mature on 6 January 2020. The fair value of this interest rate swap contract as at 31 December 2018 was estimated to be HK\$4,467,000 (2017: HK\$1,974,000).

As at 31 December 2018, the Group recognized "A derivative financial instrument" under non-current assets amounting to HK\$4,467,000 (2017: HK\$1,974,000) with the increase in fair value amounting to HK\$2,493,000 (2017: HK\$1,974,000) being credited to profit or loss under "Other gains or losses — Change in fair value of a derivative financial instrument".

22. INVENTORIES OF PROPERTIES

	2018 HK\$'000	2017 HK\$'000
Properties under development, at cost	58,205,012	40,190,356
Properties held for sale, at cost	9,477,650	14,224,038
	67,682,662	54,414,394

Notes to the Financial Statements (*continued*)

22. INVENTORIES OF PROPERTIES (CONTINUED)

As at 31 December 2018, properties under development amounting to HK\$44,253,955,000 (2017: HK\$29,233,970,000) are not expected to be recovered within twelve months from the end of the reporting period.

As at 31 December 2018, leasehold interests in land included in inventories of properties amounted to HK\$34,046,534,000 (2017: HK\$26,318,753,000).

As at 31 December 2018, inventories of properties with aggregate carrying value of HK\$228,945,000 (2017: HK\$765,193,000) were pledged as securities for the borrowings and banking facilities of the Group, which will be released upon the Group's settlement of the borrowings and banking facilities (note 42).

23. OTHER INVENTORIES

	2018 HK\$'000	2017 HK\$'000
Raw materials and consumables	1,861	2,060

24. CONTRACT ASSETS

Details of the contract assets recognized by the Group are as follows:

	As at 31 December 2018 HK\$'000	As at 1 January 2018 HK\$'000	As at 31 December 2017 HK\$'000
Contract costs of obtaining contracts (note)	15,986	7,134	–

Note:

Contract costs capitalized as at 31 December 2018 related to the incremental costs incurred in obtaining the contracts, primarily sale commission and stamp duty paid/payable. Contract costs are recognized as part of distribution and selling expenses or administrative expenses, where appropriate, in profit or loss in the period in which revenue from the related property sales is recognized. The amount of capitalized contract costs recognized in profit or loss for the year ended 31 December 2018 was HK\$98,583,000. There was no impairment provision in relation to capitalized contract costs as at 31 December 2018.

In the comparative period, these incremental costs incurred in obtaining the contracts were recognized as expenses under "distribution and selling expenses" and "administrative expenses" when incurred and therefore, an opening balance adjustment was made upon adoption of HKFRS 15 on 1 January 2018 in this regard (note 2.1).

Notes to the Financial Statements (*continued*)

25. TRADE AND OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	2018 HK\$'000	2017 HK\$'000
Trade receivables	74,083	38,191
Less: Loss allowance for impairment of trade receivables (note (b))	–	–
Trade receivables, net (note (a))	74,083	38,191
Other receivables (note (c))	2,533,715	1,721,316
Prepayments and deposits (note (d))	7,550,781	8,043,417
Less: Loss allowance for impairment of other receivables (note (e))	(6,848)	(7,178)
	10,077,648	9,757,555
	10,151,731	9,795,746

Notes:

- (a) The credit terms in connection with sales of properties granted to the buyers are set out in the sale and purchase agreements and vary for different agreements. Rentals receivable from tenants and service income receivable from customers are generally due on presentation of invoices.

The ageing analysis of the Group's trade receivables net of loss allowance for impairment, based on invoice date or when appropriate, date of transfer of property, is as follows:

	2018 HK\$'000	2017 HK\$'000
30 days or below	71,363	1,116
31–60 days	62	503
61–90 days	81	508
91–180 days	1,361	464
181–360 days	122	17
Over 360 days	1,094	35,583
	74,083	38,191

Comparative information under HKAS 39

Prior to 1 January 2018, an impairment loss was recognized only when there was objective evidence of impairment (note 3.13B(ii)). As at 31 December 2017, none of the Group's trade receivables was determined to be impaired. The ageing analysis of overdue trade receivables not considered impaired, based on past due date, as at 31 December 2017 is as follows:

	2017 HK\$'000
Over 360 days	35,423

Trade receivables which were neither past due nor impaired at 31 December 2017 related to number of unrelated customers who did not have a recent history of default. Trade receivables that were past due but not impaired related to certain customers. Based on past experience, these balances were still considered fully recoverable. Accordingly, no impairment provision was considered necessary as at 31 December 2017 in respect of these receivables.

Notes to the Financial Statements (*continued*)

25. TRADE AND OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS (CONTINUED)

Notes: (Continued)

(b) The movements in the loss allowance for trade receivables during the year are as follows:

	2018 HK\$'000	2017 HK\$'000
At 1 January	–	3,344
Translation adjustment	–	120
Write-off	–	(3,464)
At 31 December	–	–

The Group recognizes loss allowance for trade receivables for the years ended 31 December 2018 and 2017 respectively based on the accounting policies stated in notes 3.13A(ii) and 3.13B(ii). Further details of the Group's credit policy and credit risk arising from trade receivables are set out in note 49.3.

(c) The balances of other receivables mainly comprise the followings:

- (i) Other receivables as at 31 December 2017 included a receivable from the land authority amounting to HK\$391,097,000. In 2017, the Group paid tender deposit amounting to RMB526,600,000 for acquisition of lands through public tender, of which RMB197,625,000 had been refunded to the Group during 2017 whereas the remaining balance of approximately HK\$391,097,000 remained outstanding as at 31 December 2017. Such amount had been refunded to the Group in January 2018.
- (ii) Proceeds received from sales of properties amounting to HK\$1,389,949,000 (2017: HK\$434,591,000) in aggregate placed by the Group to certain government agencies as deposit. In accordance with the relevant regulations in certain PRC cities, certain project companies are required to place proceeds received from sales of properties to the government agencies. The project companies can apply for release of the proceeds when the construction work of the property projects has reached certain milestones stipulated in the pre-sale proceeds supervision agreements.

(d) The balances of prepayments and deposits mainly comprise the followings:

- (i) Deposits amounting to HK\$5,219,643,000 (2017: HK\$6,300,455,000) in aggregate paid by the Group for the acquisition of lands in the PRC.

At the end of the reporting period, the dismantling and smoothing work on certain lands were still in progress and thus were not yet handed over to the Group. Accordingly, the land transfer application and procedures for those lands were in progress at the end of the reporting period. As assessed by the directors, the legal titles of those lands will be passed to the Group by the local authority in due course upon handover of the lands. In addition, the application of the land certificates of certain land parcels was still in progress at the end of the reporting period, in particular for those land parcels acquired by the Group near the reporting date. As assessed by the directors, the land certificates of those land parcels will be issued to the Group in due course upon completion of the relevant administrative procedures without encountering significant difficulty.

- (ii) The Group incurred expenditure and made payment for the primary development on certain areas in Hohhot-Inner Mongolia (the "Primary Development Land"). In prior years, the Group successfully acquired land use right for certain area of the Primary Development Land through public tender. According to the approval document issued by the relevant land authority in Hohhot, the cost of these lands was offset against the payment made by the Group for the Primary Development Land. As at 31 December 2017, the outstanding amount paid by the Group for the Primary Development Land was HK\$73,687,000.

During the year ended 31 December 2018, the Group successfully acquired a land parcel in Hohhot-Inner Mongolia at acquisition cost of RMB43,541,000, equivalent to HK\$51,727,000. The Group and the land authority agreed that the land consideration for this land parcel was offset against the payment made by the Group for the Primary Development Land.

Notes to the Financial Statements (*continued*)

25. TRADE AND OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS (CONTINUED)

Notes: (Continued)

(e) The movements in the loss allowance for other receivables during the year are as follows:

	2018 HK\$'000	2017 HK\$'000
At 1 January	7,178	14,606
Translation adjustment	(330)	754
Write-off	–	(8,182)
At 31 December	6,848	7,178

The Group recognizes loss allowance for other receivables for the years ended 31 December 2018 and 2017 respectively based on the accounting policies stated in notes 3.13A(ii) and 3.13B(ii). Further details of the Group's credit policy and credit risk arising from other receivables are set out in note 49.3.

26. AMOUNTS DUE FROM/TO ASSOCIATES

The amounts due from/to associates as at 31 December 2018 and 2017 are unsecured, interest-free and repayable on demand.

27. AMOUNTS DUE FROM/TO JOINT VENTURES

The amounts due from/to joint ventures as at 31 December 2018 and 2017 are unsecured, interest-free and repayable on demand except for an amount due from a joint venture as at 31 December 2018 amounting RMB255,000,000, equivalent to HK\$291,032,000 (2017: HK\$305,057,000). This amount represented a loan granted to the joint venture in 2017, which is unsecured, interest-bearing at fixed rate of 5.225% per annum and repayable in September 2019.

28. AMOUNTS DUE FROM/TO NON-CONTROLLING INTERESTS

The amounts due from/to non-controlling interests as at 31 December 2018 and 2017 are unsecured, interest-free and repayable on demand.

During the year ended 31 December 2017, the entire amount of dividends attributable to non-controlling interests amounting to HK\$25,015,000 was credited to the current account with the non-controlling interests.

29. RESTRICTED CASH AND DEPOSITS/CASH AND BANK BALANCES

	2018 HK\$'000	2017 HK\$'000
Cash at banks and in hand (note (b))	33,264,183	23,702,253
Less: Restricted cash and deposits (note (a))	(7,902,629)	(7,553,007)
Cash and bank balances	25,361,554	16,149,246

Notes to the Financial Statements (*continued*)

29. RESTRICTED CASH AND DEPOSITS/CASH AND BANK BALANCES (CONTINUED)

Notes:

(a) Certain bank balances are restricted as follows:

- In accordance with the relevant documents issued by the PRC State-Owned Land and Resources Bureau, certain subsidiaries engaging in property development are required to place in designated bank accounts certain amount of pre-sale proceeds of properties as guarantee deposits for the construction of the related properties. The deposits can only be used for purchases of construction materials and payments of construction fees of the relevant property projects when approval from the PRC State-Owned Land and Resources Bureau is obtained. Such guarantee deposits will only be released after the completion of development of the related pre-sale properties or issuance of the real estate ownership certificates, whichever is the earlier.
- In relation to the mortgage agreements entered into by the buyers and the banks, certain subsidiaries are required to place proceeds received from sales of properties as guarantee deposits in designated bank accounts maintained with the banks. These deposits can only be used to settle construction fees of the relevant property projects and for certain other cases, these deposits could be used to settle the project loans arranged with the banks to finance the relevant property projects. Balances in these designated bank accounts are subject to monitoring by the banks.

The amount of cash restricted for the above purposes as at 31 December 2018 was HK\$7,902,629,000 (2017: HK\$7,553,007,000).

(b) Cash balance denominated in RMB amounted to approximately HK\$30,002,239,000 (2017: HK\$23,640,928,000) as at 31 December 2018. The RMB is not freely convertible into other currencies.

(c) Cash at bank earns interest at floating rates based on daily bank deposits rates. Short-term time deposits are made for periods depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates. The directors consider that the fair values of the short-term deposits are not materially different from their carrying amounts because of the short maturity period.

The Group's short-term time deposits as at 31 December 2018 amounted to HK\$3,815,585,000, of which deposits of HK\$3,609,541,000 had original maturity of six to eight months and earned interest income at interest rates ranged from 1.82% to 3.43% per annum whereas the remaining balance of HK\$206,044,000 had original maturity of one month and earned interest income at interest rates ranged from 2.97% to 3.31% per annum. As at 31 December 2017, the Group had time deposits of HK\$612,621,000 placed with banks with original maturity period of six months and earned interest income at interest rate at 1.82% per annum. The entire amount of short-term time deposits as of 31 December 2018 and 2017 was included in "cash and bank balances".

30. TRADE AND OTHER PAYABLES

	2018 HK\$'000	2017 HK\$'000
Trade payables (note)	9,162,955	8,436,569
Other payables and accruals	1,418,405	922,317
Deposits received	239,934	280,552
	10,821,294	9,639,438

Note:

The ageing analysis of the Group's trade payables based on invoice date is as follows:

	2018 HK\$'000	2017 HK\$'000
30 days or below	2,771,902	3,145,217
31–60 days	325,291	230,550
61–90 days	356,028	121,284
91–180 days	866,930	719,689
181–360 days	1,503,213	1,443,695
Over 360 days	3,339,591	2,776,134
	9,162,955	8,436,569

Notes to the Financial Statements (*continued*)

31. CONTRACT LIABILITIES/SALES DEPOSITS RECEIVED

	As at 31 December 2018 HK\$'000	As at 1 January 2018 HK\$'000	As at 31 December 2017 HK\$'000
Property development — Sales deposits and instalments received			
Contract liabilities	43,282,504	28,179,664	–
Sales deposits received	–	–	30,820,778

Notes:

(a) Upon adoption of HKFRS 15, an opening adjustment was made on 1 January 2018 to reclassify sales deposits and instalments received from the customers in relation to property sales from “sales deposits received” to “contract liabilities” and adjust for the impact on revenue recognition for sales of properties over time (note 2.1).

(b) Payment terms which impact on the amount of contract liabilities recognized are as follows:

Property development

The Group receives payments from customers based on billing schedule as set out in the sales contracts. Payments are usually received in advance of the performance under the contracts which are mainly from sales of properties.

(c) Revenue recognized for the year ended 31 December 2018 that was included in contract liabilities at the beginning of the year was HK\$17,430,869,000.

(d) The amount of sales deposits and instalments received expected to be recognized as revenue after more than one year is HK\$15,315,314,000.

32. AMOUNTS DUE TO RELATED COMPANIES

Amounts due to related companies as at 31 December 2018 amounted to HK\$431,856,000 (2017: HK\$4,942,323,000) in aggregate. The amounts due were unsecured and the entire amount as at 31 December 2018 were denominated in RMB whereas as at 31 December 2017, approximately HK\$1,532,425,000 were denominated in HK\$ and the remaining balance of HK\$3,409,898,000 were denominated in RMB.

Balances denominated in HK\$ amounting to HK\$1,532,325,000 as at 31 December 2017 were interest-bearing at Hong Kong Interbank Offered Rate and balances denominated in RMB as at 31 December 2018 amounting to HK\$85,627,000 (2017: HK\$3,409,898,000) were interest-bearing at the People's Bank of China prevailing lending rate whereas the remaining balances were interest-free.

As at 31 December 2018, balances amounting to HK\$346,229,000 and HK\$85,627,000 are repayable on demand and on 18 October 2020 respectively. As at 31 December 2017, balances amounting to HK\$4,852,569,000 and HK\$89,754,000 were repayable on or before 29 June 2018 and on 18 October 2020 respectively.

Notes to the Financial Statements (*continued*)

33. BORROWINGS

	2018 HK\$'000	2017 HK\$'000
Current liabilities		
Bank borrowings	4,776,456	4,312,899
Other loans	1,483,690	598,150
	6,260,146	4,911,049
Non-current liabilities		
Bank borrowings	19,271,087	18,104,489
Other loans	–	1,196,300
	19,271,087	19,300,789
	25,531,233	24,211,838

	2018 HK\$'000	2017 HK\$'000
Analysis into:		
Bank borrowings		
Secured	103,295	285,325
Unsecured	23,944,248	22,132,063
	24,047,543	22,417,388
Other loans		
Unsecured	1,483,690	1,794,450
	25,531,233	24,211,838

Note:

As at 31 December 2018, borrowings amounting to HK\$103,295,000 (2017: HK\$285,325,000) were secured by properties of the Group (note 42). In addition, as at 31 December 2018, borrowings amounting to HK\$16,556,000 (2017: HK\$296,092,000) were guaranteed by certain subsidiaries of COLI.

The current and non-current bank borrowings were scheduled for repayment as follows:

	2018 HK\$'000	2017 HK\$'000
On demand or within one year	4,776,456	4,312,899
More than one year, but not exceeding two years	9,974,672	2,306,309
More than two years, but not exceeding five years	9,296,415	15,798,180
	24,047,543	22,417,388

Notes to the Financial Statements (*continued*)

33. BORROWINGS (CONTINUED)

The current and non-current other loans were scheduled for repayment as follows:

	2018 HK\$'000	2017 HK\$'000
On demand or within one year	1,483,690	598,150
More than one year, but not exceeding two years	–	1,196,300
	1,483,690	1,794,450

The above analysis is based on scheduled repayment dates as set out in the loan agreements or the repayment schedules agreed with the banks and other lenders.

The carrying amounts of borrowings are denominated in the following currencies:

	2018 HK\$'000	2017 HK\$'000
HK\$	8,283,073	11,683,072
RMB	15,311,242	8,914,237
US\$	1,936,918	3,614,529
	25,531,233	24,211,838

As at 31 December 2018, the Group's borrowings have been arranged as follows:

- borrowings denominated in HK\$ are interest-bearing at annual floating rates of 3.35% to 4.84% (2017: 2.75% to 4.13%);
- borrowings denominated in US\$ amounting to HK\$314,000,000 (2017: HK\$2,001,948,000) are interest-bearing at annual floating rate of 4.00% (2017: 3.20% to 3.63%) while the remaining balance of HK\$1,622,918,000 (2017: HK\$1,612,581,000) is interest-bearing at annual fixed rate of 3.42% (2017: 3.42%); and
- borrowings denominated in RMB amounting to HK\$14,740,592,000 (2017: HK\$8,316,087,000) are interest-bearing at annual floating rates of 4.28% to 5.23% (2017: 4.28% to 5.70%) while the remaining balance of HK\$570,650,000 (2017: HK\$598,150,000) are interest-bearing at annual fixed rates of 3.80% (2017: 3.80%).

In respect of those borrowings which have been arranged to finance property development projects, the Group is required to place sales proceeds received from the buyers, rental income received and fund raised in relation to those projects into designated bank accounts. These bank accounts are subject to monitoring by the banks and the financial institutions and they have priority to claim repayment for the borrowings from these designated accounts.

Notes to the Financial Statements (*continued*)

34. GUARANTEED NOTES PAYABLE

	2018 HK\$'000	2017 HK\$'000
Current liabilities		
Guaranteed notes payable	3,211,357	–
Non-current liabilities		
Guaranteed notes payable	3,924,376	3,159,180
	7,135,733	3,159,180

(a) Guaranteed notes issued in 2014

On 15 January 2014, the Company and China Overseas Grand Oceans Finance II (Cayman) Limited (“COGO Finance II”), a wholly-owned subsidiary of the Company incorporated in the Cayman Islands, entered into a subscription agreement (the “2014 Notes Subscription Agreement”) regarding the issue of guaranteed notes in aggregate principal amount of US\$400,000,000 (the “2014 Guaranteed Notes”). The completion of the 2014 Notes Subscription Agreement took place and the 2014 Guaranteed Notes were issued on 23 January 2014. The 2014 Guaranteed Notes were issued at 99.037% of the principal amount.

The 2014 Guaranteed Notes are unsecured and unsubordinated obligations of COGO Finance II, and are unconditional and irrevocably guaranteed by the Company.

Interest on the 2014 Guaranteed Notes is payable semi-annually in arrears on 23 January and 23 July in each year at the rate of 5.125% per annum, commencing on 23 July 2014.

COGO Finance II may at any time upon giving not less than 30 or more than 60 days’ notice to the noteholders, redeem the 2014 Guaranteed Notes, in whole but not in part, at Early Redemption Amount (as defined in the 2014 Notes Subscription Agreement). The 2014 Guaranteed Notes are also subject to redemption at the option of the noteholders under certain conditions.

Unless previously redeemed, or purchased and cancelled, the 2014 Guaranteed Notes will mature on 23 January 2019 at their principal amount.

Further details regarding the issue of the 2014 Guaranteed Notes have been set out in the announcement of the Company dated 16 January 2014.

The net proceeds from the issue of the 2014 Guaranteed Notes at 99.037% of the principal amount after deducting the direct transaction costs of HK\$20,982,000 were HK\$3,049,165,000. The guaranteed notes payable are initially measured at fair value, net of directly attributable costs incurred and subsequently, measured at amortized cost using the effective interest rate of 5.505% per annum. For the year ended 31 December 2018, imputed interest of HK\$172,338,000 was incurred (2017: HK\$169,548,000). The 2014 Guaranteed Notes are listed on the Stock Exchange. With reference to the average quotation of the 2014 Guaranteed Notes published by a leading global financial market data provider, the fair value of the 2014 Guaranteed Notes as at 31 December 2018 was HK\$3,142,229,000 (2017: HK\$3,150,732,000) and it is within Level 1 of the fair value hierarchy.

Notes to the Financial Statements (*continued*)

34. GUARANTEED NOTES PAYABLE (CONTINUED)

(a) Guaranteed notes issued in 2014 (Continued)

The 2014 Guaranteed Notes matured on 23 January 2019 and accordingly, they were presented as current liabilities as at 31 December 2018. On 23 January 2019, the Group fully settled the outstanding principal of US\$400,000,000 together with the interest accrued thereon amounting to US\$10,250,000, which amounted to HK\$3,220,463,000 in aggregate.

(b) Guaranteed notes issued in 2018

On 24 May 2018, the Company and China Overseas Grand Oceans Finance IV (Cayman) Limited ("COGO Finance IV"), a wholly-owned subsidiary of the Company incorporated in the Cayman Islands, entered into a subscription agreement (the "2018 Notes Subscription Agreement") regarding the issue of guaranteed notes in aggregate principal amount of US\$500,000,000 (the "2018 Guaranteed Notes"). The completion of the 2018 Notes Subscription Agreement took place and the 2018 Guaranteed Notes were issued on 1 June 2018. The 2018 Guaranteed Notes were issued at 99.917% of the principal amount.

The 2018 Guaranteed Notes are unsecured and unsubordinated obligations of COGO Finance IV, and are unconditional and irrevocably guaranteed by the Company.

Interest on the 2018 Guaranteed Notes is payable semi-annually in arrears on 1 June and 1 December in each year at the rate of 4.875% per annum, commencing on 1 December 2018.

COGO Finance IV may at any time upon giving not less than 30 or more than 60 days' notice to the noteholders, redeem the 2018 Guaranteed Notes, in whole but not in part, at Early Redemption Amount (as defined in the 2018 Notes Subscription Agreement). The 2018 Guaranteed Notes are also subject to redemption at the option of the noteholders under certain conditions.

Unless previously redeemed, or purchased and cancelled, the 2018 Guaranteed Notes will mature on 1 June 2021 at their principal amount.

The net proceeds from the issue of the 2018 Guaranteed Notes at 99.917% of the principal amount after deducting the direct transaction costs of HK\$17,027,000 were HK\$3,904,715,000. The guaranteed notes payable are initially measured at fair value, net of directly attributable costs incurred and subsequently, measured at amortized cost using the effective interest rate of 5.063% per annum. For the year ended 31 December 2018, imputed interest of HK\$115,333,000 was incurred. The 2018 Guaranteed Notes are listed on the Stock Exchange. With reference to the average quotation of the 2018 Guaranteed Notes published by a leading global financial market data provider, the fair value of the 2018 Guaranteed Notes as at 31 December 2018 was HK\$3,905,611,000 and it is within Level 1 of the fair value hierarchy.

Notes to the Financial Statements (*continued*)

34. GUARANTEED NOTES PAYABLE (CONTINUED)

(c) The movements of the carrying amount of the guaranteed notes payable are set out as below:

	HK\$'000
Carrying amount as at 1 January 2017	3,148,508
Imputed interest expense (note 9)	169,548
Finance costs paid	(158,876)
Carrying amount as at 31 December 2017 and 1 January 2018	3,159,180
Fair value on initial recognition of 2018 Guaranteed Notes (note (b))	3,921,742
Direct transaction costs of issuing 2018 Guaranteed Notes (note (b))	(17,027)
Imputed interest expense (note 9)	287,671
Finance costs paid	(256,597)
Translation adjustment	40,764
Carrying amount as at 31 December 2018	7,135,733

35. DEFERRED TAX

Details of the deferred tax liabilities and assets recognized by the Group and movements during the current and prior reporting periods are as follows:

	Inventories of properties HK\$'000	Revaluation of properties HK\$'000	Provision for LAT HK\$'000	Withholding tax HK\$'000	Tax losses HK\$'000	Recognition of revenue over time HK\$'000	Total HK\$'000
At 1 January 2017	2,945,846	513,256	(250,477)	361,505	(95,274)	–	3,474,856
Translation adjustment	192,272	37,527	(7,295)	28,047	(6,630)	–	243,921
(Credited)/Charged to profit or loss (note 10)	(419,977)	46,448	12,143	81,671	1,575	–	(278,140)
At 31 December 2017	2,718,141	597,231	(245,629)	471,223	(100,329)	–	3,440,637
Impact of initial application of HKFRS 15 (note 2.1)	–	–	–	–	12,823	416,935	429,758
At 1 January 2018	2,718,141	597,231	(245,629)	471,223	(87,506)	416,935	3,870,395
Translation adjustment	(123,696)	(14,340)	27,578	(28,299)	3,762	(32,370)	(167,365)
(Credited)/Charged to profit or loss (note 10)	(364,030)	(903)	(414,272)	168,764	6,658	335,834	(267,949)
At 31 December 2018	2,230,415	581,988	(632,323)	611,688	(77,086)	720,399	3,435,081

Notes to the Financial Statements (*continued*)

35. DEFERRED TAX (CONTINUED)

Represented by:

	2018 HK\$'000	2017 HK\$'000
Deferred tax liabilities	3,619,231	3,786,595
Deferred tax assets	(184,150)	(345,958)
	3,435,081	3,440,637

The two-tiered profits tax rates regime have no material impact on the deferred tax balances of the Group as at 31 December 2018 as the qualifying entity nominated by the Group did not have material temporary differences as at 31 December 2018. Deferred tax assets and liabilities of other group entities continue to be measured using a flat rate of 16.5%.

As at 31 December 2018, the Group has unused tax losses of HK\$923,132,000 (2017: HK\$769,702,000) available for offset against future profits. A deferred tax asset of HK\$77,086,000 (2017: HK\$100,329,000) has been recognized in respect of tax losses of approximately HK\$308,345,000 (2017: HK\$401,314,000). No deferred tax assets have been recognized in respect of the remaining tax losses of HK\$614,787,000 (2017: HK\$368,388,000) due to unpredictability of future profit streams. The tax losses incurred by the relevant subsidiaries may be carried forward for five years from the financial year when the corresponding loss was incurred.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between the PRC and the jurisdiction of the foreign investors. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in the PRC in respect of earnings generated from 1 January 2008 and the applicable tax rates are 5% or 10%.

As at 31 December 2018, deferred tax liabilities of approximately HK\$611,688,000 (2017: HK\$471,223,000) have been recognized in respect of the undistributed earnings of certain PRC subsidiaries amounting to approximately HK\$12,137,225,000 (2017: HK\$9,325,362,000). Deferred tax liabilities of approximately HK\$47,864,000 as at 31 December 2018 (2017: HK\$7,783,000) have not been established for the withholding and other taxation that would be payable on the unremitted earnings of other relevant PRC subsidiaries as at 31 December 2018, as in the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. Such unremitted earnings amounted to approximately HK\$1,053,820,000 as at 31 December 2018 (2017: HK\$254,764,000).

Notes to the Financial Statements (*continued*)

36. SHARE CAPITAL

	Number of ordinary shares '000	HK\$'000
Issued and fully paid		
Balance at 1 January 2017, 31 December 2017 and 1 January 2018	2,282,240	2,144,018
Issue of shares under Rights Issue (note)	1,141,120	4,607,664
Balance at 31 December 2018	3,423,360	6,751,682

Note:

On 7 November 2017, the board of directors announced that the Company proposed to raise gross proceeds of approximately HK\$4,655.8 million by way of rights issue of approximately 1,141,120,000 rights shares on the basis of one rights share for every two existing shares of the Company at a subscription price of HK\$4.08 per rights share (the "Rights Issue").

The Rights Issue was completed on 5 February 2018. The gross proceeds from the Rights Issue was HK\$4,655,769,000 and after deducting direct transaction costs of HK\$48,105,000, net proceeds amounting to approximately HK\$4,607,664,000 were raised by the Company. The number of issued ordinary shares of the Company was increased to approximately 3,423,360,000 shares and the share capital of the Company was increased from HK\$2,144,018,000 to HK\$6,751,682,000.

37. RESERVES

The Group

Details of the movements in the Group's reserves are set out in the consolidated statement of changes in equity. The nature and purpose of the reserves are as follows:

Translation reserve

Translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations in accordance with the accounting policy set out in note 3.21.

Asset revaluation reserve

Asset revaluation reserve arises from revaluation of assets such as properties (excluding investment properties).

Statutory reserves

In accordance with the relevant PRC rules and regulations, certain subsidiaries of the Company are required to appropriate certain percentage of their profits after tax to the respective statutory reserves. Subject to certain restrictions as set out in the relevant PRC regulations, these statutory reserves may be used to make good previous years' losses, if any, or to increase the paid-up capital of the respective subsidiaries, and may be used for capital expenditure on staff welfare facilities, as appropriate.

Notes to the Financial Statements (*continued*)

37. RESERVES (CONTINUED)

The Group (Continued)

Retained profits

Retained profits of the Group comprise:

	2018 HK\$'000	2017 HK\$'000
Final dividend proposed for the year (note 11(a))	383,416	102,701
Retained profits after proposed dividend	12,862,509	10,641,452
Total retained profits as at 31 December	13,245,925	10,744,153

The Company

Details of the movements on the Company's retained profits are as follows:

	HK\$'000
At 1 January 2017	1,055,479
Profit and total comprehensive income for the year	166,020
2017 interim dividend paid (note 11(a))	(22,822)
2016 final dividend paid (note 11(b))	(45,645)
At 31 December 2017 and 1 January 2018	1,153,032
Profit and total comprehensive income for the year	1,480,162
2018 interim dividend paid (note 11(a))	(102,701)
2017 final dividend paid (note 11(b))	(102,701)
At 31 December 2018	2,427,792

Retained profits of the Company comprise:

	2018 HK\$'000	2017 HK\$'000
Final dividend proposed for the year (note 11(a))	383,416	102,701
Retained profits after proposed dividend	2,044,376	1,050,331
Total retained profits as at 31 December	2,427,792	1,153,032

38. NON-CONTROLLING INTERESTS

The total non-controlling interests as at 31 December 2018 were HK\$830,403,000 (2017: HK\$785,872,000), which are attributed to those subsidiaries not wholly-owned by the Group. In the opinion of the directors, none of the non-controlling interests of these subsidiaries are material to the Group.

Notes to the Financial Statements (*continued*)

39. STATEMENT OF FINANCIAL POSITION OF HOLDING COMPANY

As at 31 December 2018

	Notes	2018 HK\$'000	2017 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		1,214	11
Interests in subsidiaries	50	1,944,077	1,944,077
		1,945,291	1,944,088
Current assets			
Other receivables, prepayments and deposits		59,297	4,428
Amounts due from subsidiaries		18,889,170	17,387,044
Cash and bank balances		3,230,249	52,316
		22,178,716	17,443,788
Current liabilities			
Other payables and accruals		56,114	43,422
Amounts due to subsidiaries		7,105,347	4,814,330
Borrowings		583,072	2,050,000
		7,744,533	6,907,752
Net current assets		14,434,183	10,536,036
Non-current liabilities			
Borrowings		7,200,000	9,183,074
Net assets		9,179,474	3,297,050
CAPITAL AND RESERVES			
Share capital	36	6,751,682	2,144,018
Retained profits	37	2,044,376	1,050,331
Proposed dividend	11(a)	383,416	102,701
Total equity		9,179,474	3,297,050

On behalf of the directors

Zhang Guiqing
Director

Wang Man Kwan, Paul
Director

Notes to the Financial Statements (*continued*)

40. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

- (a) During the year ended 31 December 2018, capital contributions by the non-controlling shareholders of certain subsidiaries amounted to HK\$61,174,000, of which HK\$3,812,000 was settled by cash payment. The remaining amount of HK\$57,362,000 was settled through the current accounts with the non-controlling shareholders, of which HK\$45,195,000 was included in "amounts due to non-controlling interests" and HK\$12,167,000 was included in "amounts due from non-controlling interests".

In addition, a subsidiary returned capital amounting to HK\$68,478,000 to the non-controlling shareholder during the year ended 31 December 2018. The amount was settled through the current account with the non-controlling shareholder, which was included in "amounts due from non-controlling interests".

- (b) Reconciliation of liabilities arising from financing activities:

	Borrowings HK\$'000	Guaranteed notes payable HK\$'000	Amounts due to associates HK\$'000	Amounts due to joint ventures HK\$'000	Amounts due to non- controlling interests HK\$'000	Amounts due to related companies HK\$'000
At 1 January 2018	24,211,838	3,159,180	176,876	1,234,203	613,424	4,942,323
<i>Changes from cash flows:</i>						
Proceeds from new borrowings	11,623,346	-	-	-	-	-
Repayment of borrowings	(9,637,682)					
Net proceeds from issue of guaranteed notes	-	3,904,715	-	-	-	-
Advances received	-	-	2,159	879,364	2,528,758	3,996
Repayment of advances			(30,972)	(704,062)	(662,301)	(4,471,384)
Interest paid	(1,041,206)	(256,597)	-	-	-	(48,762)
	944,458	3,648,118	(28,813)	175,302	1,866,457	(4,516,150)
<i>Exchange adjustment:</i>	(666,269)	40,764	3,006	(63,634)	(101,572)	(42,979)
<i>Other changes:</i>						
Interest expenses	1,041,206	287,671	-	-	-	48,662
Dividend credited to the current account with associates	-	-	(124,438)	-	-	-
Contribution from non-controlling interests (note (a))	-	-	-	-	(45,195)	-
	1,041,206	287,671	(124,438)	-	(45,195)	48,662
As at 31 December 2018	25,531,233	7,135,733	26,631	1,345,871	2,333,114	431,856

Notes to the Financial Statements (*continued*)

40. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(b) Reconciliation of liabilities arising from financing activities: (Continued)

	Borrowings HK\$'000	Guaranteed notes payable HK\$'000	Amounts due to associates HK\$'000	Amounts due to joint ventures HK\$'000	Amounts due to non- controlling interests HK\$'000	Amounts due to related companies HK\$'000
At 1 January 2017	19,973,611	3,148,508	186,832	–	886,353	8,641,033
<i>Changes from cash flows:</i>						
Proceeds from new borrowings	12,636,885	–	–	–	–	–
Repayment of borrowings	(8,914,795)	–	–	–	–	–
Advances received	–	–	131,536	1,196,769	–	–
Repayment of advances	–	–	(153,858)	(1,976)	(324,390)	(3,981,523)
Interest paid	(865,288)	(158,876)	(18,013)	–	(19,220)	(226,290)
	2,856,802	(158,876)	(40,335)	1,194,793	(343,610)	(4,207,813)
<i>Exchange adjustment:</i>	516,137	–	15,116	39,410	68,463	326,475
<i>Other changes:</i>						
Interest expenses	865,288	169,548	15,263	–	2,218	182,628
As at 31 December 2017	24,211,838	3,159,180	176,876	1,234,203	613,424	4,942,323

Notes to the Financial Statements (*continued*)

41. RETIREMENT BENEFITS SCHEMES

The Group operates the Mandatory Provident Fund Scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. The MPF Scheme is a defined contribution retirement benefits scheme and contributions to the scheme are made based on a percentage of the employees' relevant income and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the subsidiaries of the Company which operate in the PRC are required to participate in a central pension scheme operated by the local municipal governments. These PRC subsidiaries are required to contribute certain percentage of its payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

The total expenses recognized in profit or loss of HK\$44,559,000 (2017: HK\$28,555,000) represent contributions paid/payable to these schemes by the Group in the year. As at 31 December 2018, no forfeited contribution under these schemes is available to reduce the contribution payable in future (2017: nil).

42. PLEDGE OF ASSETS

As at 31 December 2018, the carrying amounts of the assets pledged by the Group to secure for borrowings and banking facilities granted to the Group are analyzed as follows:

	2018 HK\$'000	2017 HK\$'000
Pledge for borrowings and banking facilities of the Group		
Owners-occupied properties (note 15)	251,223	394,684
Inventories of properties (note 22)	228,945	765,193
	480,168	1,159,877

Notes to the Financial Statements (*continued*)

43. OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases certain office premises, quarters and shopping mall operating right under operating leases arrangements. Leases of these properties are negotiated for periods ranging from six months to thirty years (2017: six months to thirty years) and rentals are fixed over the contracted period. As at 31 December 2018, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises payable as follows:

	2018 HK\$'000	2017 HK\$'000
Within one year	15,748	13,841
In the second to fifth year, inclusive	23,562	28,704
Over five years	16,406	23,879
	55,716	66,424

As lessor

The Group leases out its investment properties (note 14), the shopping mall in which the Group has operating right (note 17) and certain units of inventories of properties under operating lease arrangements with leases negotiated for period ranging from one year to twenty years (2017: one year to twenty years). As at 31 December 2018, the Group had contracted with tenants for the following future minimum lease payments receivable:

	2018 HK\$'000	2017 HK\$'000
Within one year	275,372	239,405
In the second to fifth year, inclusive	530,289	418,562
Over five years	230,471	191,777
	1,036,132	849,744

44. OTHER COMMITMENTS

As at 31 December 2018, the Group had other significant commitments as follows:

	2018 HK\$'000	2017 HK\$'000
Contracted for but not provided for in the financial statements:		
— Acquisition of land	2,280,967	2,159,594
— Property development	10,356,621	5,891,102
Authorized but not contracted for:		
— Acquisition of land	2,294,046	—

Notes to the Financial Statements (*continued*)

45. CONTINGENT LIABILITIES

(a) Guarantees

As at 31 December 2018, the Group had issued the following significant guarantees:

	2018 HK\$'000	2017 HK\$'000
Guarantees given to:		
— Banks and government agencies for mortgage loans granted to certain purchasers of the Group's properties	33,447,290	31,417,570
— Bank in respect of the banking facilities granted to a joint venture	256,793	269,168

In the opinion of the directors, if the purchasers default payment of the mortgage loans during the period of guarantee, the net realizable value of the related properties can cover the repayment of the outstanding loans together with the accrued interest thereon. In addition, as assessed by the directors, the risk of default of payment of the outstanding bank loan together with the accrued interest thereon by the joint venture is low. Accordingly, no provision has been made in the financial statements in respect of these guarantees.

- (b) The Group, being a property developer in the PRC, is subject to extensive government requirements in many aspects of its property development operations, including but not limited to land acquisition and transfer, planning and construction works, etc. In the ordinary course of business, the Group has various development projects which are behind the development timelines as stipulated in the land transfer agreements or approved by the local authorities. According to the regulation "Measures for Disposal of Unused Land" and other relevant regulations, the government is empowered to levy idle land penalty and in the extreme case, confiscate the undeveloped land depending on circumstances. In addition, the delay in development may constitute default in contract terms of the land transfer agreements, of which the transferor can claim for liquidated damages.

As at 31 December 2018 and 2017, the construction works of the land parcels of certain subsidiaries in Zibo and Jiujiang, the PRC, were behind the stipulated development timelines. Accordingly, these subsidiaries are exposed to the aforementioned penalties and liquidated damages.

The directors estimated that the maximum amount of penalty and liquidated damages would not be more than approximately HK\$649 million (2017: HK\$540 million) in aggregate according to the relevant regulations and land transfer agreements. The carrying amount of the aforementioned lands is approximately HK\$3,204 million in aggregate as of 31 December 2018 (2017: HK\$3,360 million).

Notwithstanding the above, the directors, having regard to their past experiences in handling similar matter and the latest local development, together with the application for extending the commencement dates of construction works submitted and communications with relevant local authorities, considered that the risk of confiscation of the concerned land parcels as well as penalty and liquidated damages is low.

Having regard to the nature and latest development, the directors are of the opinion that no non-conformity instance would have material impact on the result and financial position of the Group.

Notes to the Financial Statements (*continued*)

46. RELATED PARTY TRANSACTIONS

Same as disclosed elsewhere in these financial statements, the Group had the following material transactions with related parties:

- (a) On 28 March 2014, the Company and COLI entered into a trademark licence agreement (the "2014 Trademark Licence Agreement"), pursuant to which COLI grants a non-exclusive right to the Company, its subsidiaries and the member company as defined in the 2014 Trademark Licence Agreement, a licence to use the trademark "中海地產" (the "Trademark") in the PRC for a term commenced from 1 April 2014 and ended on 31 March 2017 (both days inclusive). The Trademark is registered in the PRC and owned by 中海地產集團有限公司, a subsidiary of COLI.

Pursuant to the 2014 Trademark Licence Agreement, the Company agrees to pay 1% of its audited annual consolidated turnover for each financial year ended 31 December 2014, 2015 and 2016 as royalty. The royalty payments are to be made in arrears on or before 31 March each succeeding year until the expiry or earlier termination of the 2014 Trademark Licence Agreement. The total royalty payable under the 2014 Trademark Licence Agreement for each of the twelve-month period between 1 April 2014 and 31 March 2017 shall not exceed HK\$250,000,000.

The 2014 Trademark Licence Agreement expired on 31 March 2017. On 31 March 2017, the Company and COLI entered into a new trademark licence agreement (the "2017 Trademark Licence Agreement"), pursuant to which COLI grants a non-exclusive right to the Company, its subsidiaries and the member company as defined in the 2017 Trademark Licence Agreement, a licence to use the Trademark in the PRC for a term commenced from 1 April 2017 and ending on 31 March 2020 (both days inclusive).

Pursuant to the 2017 Trademark Licence Agreement, the Company agrees to pay 1% of its audited annual consolidated turnover for each financial year ending 31 December 2017, 2018 and 2019 as royalty. The royalty payments are to be made in arrears on or before 31 March each succeeding year until the expiry or earlier termination of the 2017 Trademark Licence Agreement. The total royalty payable under the 2017 Trademark Licence Agreement for each of the twelve-month period between 1 April 2017 and 31 March 2020 shall not exceed HK\$200,000,000.

Royalty incurred by the Group under the aforementioned trademark licence agreements in respect of financial year ended 31 December 2018 amounted to HK\$200,000,000 (2017: HK\$203,537,000).

As at 31 December 2018, the royalty payable to COLI amounted to HK\$200,000,000 (2017: HK\$203,537,000) which was included in "Trade and other payables" in the consolidated statement of financial position. The amount due to COLI is unsecured, interest-free and repayable on demand.

Notes to the Financial Statements (*continued*)

46. RELATED PARTY TRANSACTIONS (CONTINUED)

- (b) On 1 August 2014, the Group entered into tenancy agreements (the “2014 Tenancy Agreements”) with 北京中海金石房地產開發有限公司 and 北京嘉益德房地產開發有限公司 for a term of three years commenced from 1 August 2014 and ended on 31 July 2017. The annual rent payable by 北京中海金石房地產開發有限公司 and 北京嘉益德房地產開發有限公司 are RMB9,327,000 and RMB4,678,000 respectively. The total rental payable under the 2014 Tenancy Agreements for each of the twelve-month period between 1 August 2014 and 31 July 2017 shall not exceed RMB14,005,000.

The 2014 Tenancy Agreements expired on 31 July 2017. On 28 July 2017, the Group entered into tenancy agreements (the “2017 Tenancy Agreements”) with 北京仁和燕都房地產開發有限公司 and 北京中信新城逸海房地產開發有限公司 for a term of three years commenced from 1 August 2017 and ending on 31 July 2020. The annual rent payable by 北京仁和燕都房地產開發有限公司 and 北京中信新城逸海房地產開發有限公司 are RMB10,260,000 and RMB5,145,000 respectively. The total rental payable under the 2017 Tenancy Agreements for each of the twelve-month period between 1 August 2017 and 31 July 2020 shall not exceed RMB15,405,000.

For the year ended 31 December 2018, total rental income generated from the aforementioned tenancy agreements is approximately RMB14,671,000, equivalent to approximately HK\$17,429,000 (2017: HK\$16,090,000). As at 31 December 2018, rental income received in advance from these leases amounted to approximately RMB1,284,000, equivalent to approximately HK\$1,465,000 (2017: HK\$1,463,000).

- (c) On 1 June 2015, the Company and China Overseas Property Holdings Limited (“COPH”) entered into a framework agreement (the “Property Management Agreement”) pursuant to which COPH and its subsidiaries (“COPH Group”) may provide property management services to the Group. The Property Management Agreement shall take effect from 1 June 2015 for a term of three years ended on 31 May 2018 (both days inclusive). COPH was a subsidiary of COLI on 1 June 2015 and subsequently becomes a fellow subsidiary of COLI.

According to the Property Management Agreement, the annual consideration payable by the Group for property management services for the period from 1 June 2015 to 31 December 2015, each of the two years ended 31 December 2017 and the period from 1 January 2018 to 31 May 2018 shall not exceed RMB30,000,000, RMB50,000,000, RMB60,000,000 and RMB35,000,000 respectively.

For the year ended 31 December 2017, total property management services fee incurred by the Group under the Property Management Agreement was HK\$48,719,000 whereas property management services paid was HK\$46,112,000. As at 31 December 2017, the property management services fee payable to COPH Group amounted to HK\$7,498,000 which was included in “Trade and other payables” in the consolidated statement of financial position while property management fee prepaid to COPH Group amounted to HK\$3,768,000. The management fee payable by the Group to COPH Group is unsecured, interest-free and will be settled pursuant to the payment terms set out in the specific tender or property management contracts.

The Property Management Agreement was terminated upon the Prevailing Projects Framework Agreement as set out in note 46(e) becomes effective. For the year ended 31 December 2018, no management fee was incurred and paid by the Group under the Property Management Agreement.

Notes to the Financial Statements (*continued*)

46. RELATED PARTY TRANSACTIONS (CONTINUED)

- (d) During the year ended 31 December 2017, certain subsidiaries of COLI which later become subsidiaries of COPH provided property management services to certain subsidiaries and total property management services fee incurred by the Group under these arrangements amounted to RMB9,554,000, equivalent to approximately HK\$11,064,000.
- (e) On 20 October 2017, the Company and COPH entered into a framework agreement (“New Projects Framework Agreement”) pursuant to which any member of COPH Group may provide property management services and engineering services to the Group for certain property development projects in several emerging third-tier cities in the PRC acquired by the Group from COLI in an acquisition which took place in December 2016 and which are not managed by any member of COPH Group at the time when the Group and COPH entered into the New Projects Framework Agreement (the “New Projects”). The New Projects Framework Agreement commenced on 1 January 2018 and will end on 30 June 2020.

According to the New Projects Framework Agreement, the consideration payable by the Group for the year ending 31 December 2018 and 2019 and for the period commencing on 1 January 2020 and ending on 30 June 2020 shall not exceed HK\$47,800,000, HK\$45,900,000 and HK\$25,800,000 respectively.

On 20 October 2017, the Company and COPH entered into another framework agreement (“Prevailing Projects Framework Agreement”) to increase the annual caps and the scope of services under the Property Management Agreement and renew the transactions as mentioned in note 46(c), pursuant to which any member of COPH Group may provide property management services and engineering services to the Group for property development projects in the PRC, Hong Kong, Macau and other locations (excluding the New Projects). The Prevailing Projects Framework Agreement commenced on 1 January 2018 and will end on 30 June 2020.

According to the Prevailing Projects Framework Agreement, the consideration payable by the Group for the year ending 31 December 2018 and 2019 and for the period commencing on 1 January 2020 and ending on 30 June 2020 shall not exceed HK\$115,600,000, HK\$96,500,000 and HK\$57,900,000 respectively.

For the year ended 31 December 2018, property management services and engineering services fee incurred by the Group under the New Projects Framework Agreement and the Prevailing Projects Framework Agreement amounting to HK\$13,166,000 and HK\$46,011,000 respectively whereas services fee paid under the New Projects Framework Agreement and the Prevailing Projects Framework Agreement amounting to HK\$14,613,000 and HK\$57,301,000 respectively.

As at 31 December 2018, property management services and engineering services fee payable to COPH Group amounted to HK\$15,063,000 in aggregate, which were included in “Trade and other payables” in the consolidated statement of financial position and property management services and engineering services fee prepaid to COPH Group amounted to HK\$2,489,000. The services fee payable by the Group to COPH Group are unsecured, interest-free and will be settled pursuant to the payment terms set out in the relevant agreements.

For the year ended 31 December 2017, no property management services and engineering services fee was paid or payable by the Group to COPH Group under the New Projects Framework Agreement and the Prevailing Projects Framework Agreement.

Notes to the Financial Statements (*continued*)

46. RELATED PARTY TRANSACTIONS (CONTINUED)

- (f) On 24 March 2016, the Company and China State Construction International Holdings Limited (“CSC”) entered into a framework agreement (the “Construction Supervision Service Agreement”) pursuant to which the Group may appoint CSC and its subsidiaries (excluding subsidiary(ies) listed on any stock exchange) (“CSC Group”) as construction supervisor to provide supervision and management services for the property development projects of the Group in the PRC. The Construction Supervision Service Agreement has a term of three years commenced from 1 April 2016 and ending on 31 March 2019 (both days inclusive). CSC is a fellow subsidiary of COLI.

The management fee with respect to the construction supervision service will be charged on a “cost plus” basis, which will be determined based on the total staff cost incurred by CSC Group with respect to the provision of the construction supervision service plus a margin of 18%. The management fee payable by the Group to CSC Group for the period from 1 April 2016 to 31 December 2016, each of the two years ended 31 December 2018 and the period from 1 January 2019 to 31 March 2019 shall not exceed RMB110,000,000, RMB136,000,000, RMB191,000,000 and RMB65,000,000 respectively. The management fee payable by the Group to CSC Group will be settled monthly in cash.

For the year ended 31 December 2018, total management fee incurred by the Group under the Construction Supervision Service Agreement is approximately RMB11,948,000, equivalent to approximately HK\$14,194,000 (2017: HK\$49,398,000) whereas management fee paid is approximately RMB10,890,000, equivalent to HK\$12,937,000 (2017: HK\$48,619,000). As at 31 December 2018, there was no management fee payable to CSC Group whereas as at 31 December 2017, management fee payable to CSC Group amounted to HK\$1,675,000 which was included in “Trade and other payables” in the consolidated statement of financial position. The management fee payable to CSC Group by the Group is unsecured and interest-free.

- (g) During the year ended 31 December 2018, 中海監理有限公司 (“China Overseas Supervision”) provided construction supervision services to the Group in respect of the prevailing projects of the Group. Previously, China Overseas Supervision was a wholly-owned subsidiary of CSC. Following the completion of acquisition of the entire equity interests in China Overseas Supervision by Far East Global Group Limited (“FEG”) on 26 June 2018, China Overseas Supervision becomes a wholly-owned subsidiary of FEG. FEG is a fellow subsidiary of COLI.

For the year ended 31 December 2018, total management fee charged by China Overseas Supervision against the Group (excluding those management fee incurred under the Construction Supervision Service Agreement set out in note 46(f)) amounting to RMB11,097,000, equivalent to approximately HK\$13,183,000 whereas management fee paid by the Group is RMB11,296,000, equivalent to approximately HK\$13,420,000.

Notes to the Financial Statements (*continued*)

46. RELATED PARTY TRANSACTIONS (CONTINUED)

- (h) On 26 June 2018, the Company and FEG entered into a framework agreement (“COGO Framework Agreement”) pursuant to which the Group agreed to engage FEG and its subsidiaries (“FEG Group”) to provide project management, supervision and consultancy services for the property development projects of the Group in the PRC. The COGO Framework Agreement covers a period commenced from 1 July 2018 and ending on 30 June 2021.

According to the COGO Framework Agreement, the maximum total contract sum that may be awarded by the Group to FEG Group for the period from 1 July 2018 to 31 December 2018, each of the two years ending 31 December 2020 and for the period from 1 January 2021 to 30 June 2021 shall not exceed HK\$30 million, HK\$60 million and HK\$30 million respectively. The management services fee payable by the Group to FEG Group will be settled pursuant to the payment terms set out in the tender documents or specific contracts.

For the year ended 31 December 2018, no contract was awarded by the Group and no management services fee was incurred by the Group under the COGO Framework Agreement.

- (i) As at 31 December 2018 and 2017, certain of the Group’s borrowings and banking facilities are guaranteed by the subsidiaries of COLI.
- (j) As at 31 December 2018, the Group provided corporate guarantee amounting to HK\$256,793,000 (2017: HK\$269,168,000) to secure for certain borrowings and banking facilities of a joint venture.
- (k) For the year ended 31 December 2018, the Group received interest income from a joint venture and non-controlling interests amounting to HK\$15,140,000 and HK\$40,031,000 (note 7) respectively whereas it incurred interest expense amounting to HK\$48,662,000 on amounts due to related companies (note 9).

For the year ended 31 December 2017, the Group received interest income from a joint venture amounting to HK\$4,488,000 (note 7) whereas it incurred interest expense amounting to HK\$15,263,000, HK\$2,218,000 and HK\$182,628,000 on amounts due to an associate, non-controlling interests and related companies respectively (note 9).

- (l) In connection with the Rights Issue of the Company as detailed in note 36, the Company entered into an underwriting agreement with COLI on 7 November 2017. Pursuant to the underwriting agreement, COLI agreed to underwrite the rights shares of Company and COLI is entitled to underwriting commission which is calculated at 1.5% of the aggregate subscription price in respect of the underwritten shares.

The Right Issue was completed on 5 February 2018 and an underwriting commission amounting to HK\$43,316,000 was incurred and paid by the Group to COLI during the year ended 31 December 2018.

Notes to the Financial Statements (*continued*)

46. RELATED PARTY TRANSACTIONS (CONTINUED)

(m) Key management personnel remunerations include the following expenses:

	2018 HK\$'000	2017 HK\$'000
Short-term employee benefits	24,706	23,660
Post-employment benefits	619	50
	25,325	23,710

(n) Transactions with other state-controlled entities in the PRC

The Group is not controlled by the PRC government. However, the Group is an associated company of COLI while the ultimate holding company of COLI is CSCEC, a company controlled by the PRC government, as such, the PRC government is regarded as a related party of the Group. Apart from the transactions already disclosed above, the Group also conducts business with other state-controlled entities. The directors consider the transactions with those state-controlled entities are conducted on an arms' length basis.

In connection with its property development activities, other than those disclosed in notes (a) and (c) to (h) above, the Group awards construction and other works contracts to PRC entities, some of which, to the best knowledge of management, are state-controlled entities. The Group has also entered into various transactions with the PRC government departments or agencies, mainly regarding acquisition of land through tendering to those government departments or agencies. During the year ended 31 December 2018, the Group acquired certain parcels of land from the PRC government departments through public tender at an aggregate consideration of approximately HK\$23,284,267,000 (2017: HK\$10,888,085,000).

In addition, in the normal course of business, the Group entered into various deposits and lending transactions with banks and financial institutions which are state-controlled entities.

The Group is active in property sale and property leasing in various provinces in the PRC. The directors are of the opinion that it is impracticable to ascertain the identity of all the counterparties and accordingly whether the transactions are with state-controlled entities. However, the directors are of the opinion that the transactions with state-controlled entities are entered into in the normal course of business of the Group.

In addition to the above transactions and balances, details of the Group's other balances with related parties are disclosed in consolidated statement of financial position and notes 26, 27, 28 and 32.

The related party transactions in respect of items (a) to (j) and (l) above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

Notes to the Financial Statements (*continued*)

47. CAPITAL MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital and to support the Group's financial stability and growth.

The Group monitors its capital structure on the basis of net gearing ratio (i.e. net debt to equity). Net debt includes borrowings less restricted cash and deposits and cash and bank balances. Equity represents equity attributable to owners of the Company. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or issue new shares.

The net gearing ratios of the Group as at 31 December 2018 and 2017 were as follows:

	2018 HK\$'000	2017 HK\$'000
Borrowings	25,531,233	24,211,838
Guaranteed notes payable	7,135,733	3,159,180
Less: restricted cash and deposits	(7,902,629)	(7,553,007)
Less: cash and bank balances	(25,361,554)	(16,149,246)
Net debt	N/A	3,668,765
Capital represented by equity attributable to owners of the Company	19,448,179	13,677,142
Net gearing ratio	N/A	26.8%

The Group targets to maintain a net gearing ratio to be in line with the expected changes in economic and financial conditions. The Group's overall strategy on capital management remains unchanged throughout the year.

Notes to the Financial Statements (*continued*)

48. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

48.1 Categories of financial instruments

	2018 HK\$'000	2017 HK\$'000
Financial assets		
Financial assets at fair value through profit or loss*	4,467	1,974
Financial assets at fair value through other comprehensive income [®]	1,141	–
Financial assets at amortized cost [#]	36,690,209	–
Available-for-sale financial assets [®]	–	1,196
Loans and receivables [#]	–	26,181,411
Financial liabilities		
Financial liabilities at amortized cost [^]	46,751,075	43,489,276

* a derivative financial instrument

® unlisted equity investments

including trade and other receivables, amounts due from an associate, a joint venture and non-controlling interests and bank balances including restricted cash and deposits

^ including trade payables, other payables and accruals, amounts due to associates, joint ventures, non-controlling interests and other related companies, borrowings and guaranteed notes payable

48.2 Financial results by financial instruments

	2018 HK\$'000	2017 HK\$'000
Fair value gain on:		
Financial asset at fair value through profit or loss	2,493	1,974
Interest income or (expenses) on:		
Financial assets at amortized cost	394,818	–
Loans and receivables	–	178,146
Financial liabilities at amortized cost	(1,377,539)	(1,234,945)
Impairment loss on:		
Available-for-sale financial assets	–	535

Notes to the Financial Statements (*continued*)

48. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY (CONTINUED)

48.3 Fair value measurement

(a) Financial instruments not measured at fair value

Financial instruments not measured at fair value include trade and other receivables, balances with associates, joint ventures, non-controlling interests and other related companies, bank balances including restricted cash and deposits, trade payables, other payables and accruals, borrowings and guaranteed notes payable.

Due to their short-term nature, the carrying values of trade and other receivables, current balances with associates, joint ventures, non-controlling interests and other related companies, bank balances including restricted cash and deposits, trade payables, other payables and accruals, as well as current borrowings and current guaranteed notes payable approximate their fair values.

For disclosure purpose, the fair values of non-current balances with a joint venture and a related company, borrowings and guaranteed notes payable are not materially different from their carrying values. Those fair values have been determined using discounted cash flow models and are classified as level 3 in the fair value hierarchy. Significant inputs include the discount rates used to reflect the credit risks of the Group and the counterparties.

(b) Financial instruments measured at fair value

The following table provides an analysis of financial instruments carried at fair value as at 31 December 2018 and 2017 by level of fair value hierarchy.

- Level 1: Quoted prices (unadjusted) in active markets for identical financial instruments
- Level 2: Inputs other than quoted prices included in Level 1 that are observable for asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Notes to the Financial Statements (*continued*)

48. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY (CONTINUED)

48.3 Fair value measurement (Continued)

(b) Financial instruments measured at fair value (Continued)

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
As at 31 December 2018				
Financial assets				
Financial assets at fair value through profit or loss				
— A derivative financial instrument	–	4,467	–	4,467
Financial assets at fair value through other comprehensive income				
— Unlisted equity investments	–	–	1,141	1,141
	–	4,467	1,141	5,608
As at 31 December 2017				
Financial assets				
Financial assets at fair value through profit or loss				
— A derivative financial instrument	–	1,974	–	1,974

During the year ended 31 December 2018 and 2017, there were no transfers between levels.

The fair values of the derivative financial instrument, being an interest rate swap contract, as at 31 December 2018 and 2017 were determined with reference to the valuation carried out by Asset Appraisal Limited, an independent professional valuer. The valuation is determined as the present value of the estimated future cash flows based on observed yield curves.

The fair value of the unlisted equity investments as at 31 December 2018 was estimated by the directors using a discounted cash flow method which is a level 3 fair value measurement.

Notes to the Financial Statements (*continued*)

48. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY (CONTINUED)

48.3 Fair value measurement (Continued)

(b) *Financial instruments measured at fair value (Continued)*

The movements in fair value measurement within Level 3 during the year ended 31 December 2018 are as follows:

	HK\$'000
Unlisted equity investments	
At 31 December 2017 under HKAS 39	–
Impact on initial adoption of HKFRS 9 (note 20)	1,196
At 1 January 2018 under HKFRS 9	1,196
Translation adjustment	(55)
At 31 December 2018	1,141

49. FINANCIAL RISK MANAGEMENT

49.1 Financial risk management objectives and policies

The Group's activities expose it to a variety of financial risks which comprise market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. Risk management is carried out by key management under the policies approved by the board of directors. The Group does not have written risk management policies. However, the directors and senior management of the Group meet regularly to identify and evaluate risks and to formulate strategies to manage financial risks.

49.2 Market risk

(a) *Foreign currency risk*

Currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group mainly operates in Hong Kong and the PRC. The functional currency of the Company and its subsidiaries are HK\$ and RMB. The Group is exposed to currency risk arising from fluctuations on foreign currencies against the functional currencies of the group entities. Currently, the Group does not have foreign currency hedging policy but the management continuously monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The Group continues to conduct its sales mainly in RMB and make payments in RMB. In addition, the Group's borrowings were mainly denominated in HK\$, US\$ and RMB. The directors consider that a natural hedge mechanism existed to certain extent. The Group would, however, closely monitor the volatility of the RMB exchange rate.

The financial statements of the Group is presented in HK\$, being the functional currency of the Company, and thus the Group is subject to exchange risk from the volatility of RMB exchange rate against HK\$ upon translation of PRC operations.

Notes to the Financial Statements (*continued*)

49. FINANCIAL RISK MANAGEMENT (CONTINUED)

49.2 Market risk (Continued)

(b) Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rate. The Group's interest rate risk mainly arises from borrowings, guaranteed notes payable and certain balances with associates, joint ventures, non-controlling interests and other related companies. Balances arranged at variable rates and fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The interest rates and repayment terms of the borrowings, guaranteed notes payable and balances with associates, joint ventures, non-controlling interests and other related companies at the end of the reporting period are disclosed in notes 33, 34, 26, 27, 28 and 32 respectively.

The Group's bank balances also expose it to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on the bank balances. The directors consider the Group's exposure on bank deposits is not significant as interest-bearing deposits are within short maturity periods in general.

The management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

The Group entered into an interest rate swap for a US\$ denominated floating-rate bank loan. Details of this interest rate swap contract are set out in note 21.

The following sensitivity demonstrates the Group's exposure to a reasonably possible change in interest rates on its floating rate borrowings (including amounts due to related companies), after excluding the bank loan which is hedged by the interest rate swap contract, with all other variables held constant at the end of the reporting period (in practice, the actual trading results may differ from the sensitivity analysis below and the difference could be material):

	2018 HK\$'000	2017 HK\$'000
(Decrease)/Increase in profit after tax and retained profits		
+50 basis point ("bp") (2017: 50 bp)	(6,498)	(2,795)
-10 bp (2017: 10 bp)	1,300	559

The changes in interest rates do not affect the Group's other components of equity. The above sensitivity analysis is prepared based on the assumption that the borrowing period of the bank borrowings and other loans outstanding at the end of the reporting period resembles that of the corresponding financial year.

49. FINANCIAL RISK MANAGEMENT (CONTINUED)

49.3 Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group. The Group's exposure to credit risk mainly arises from granting credit to customers in the ordinary course of its operations and from its investing activities. The Group is also exposed to credit risk arising from the provision of financial guarantees.

The carrying amounts of trade and other receivables, amounts due from an associate, a joint venture, non-controlling interests, restricted cash and deposits and cash and bank balances represent the Group's maximum exposure to credit risk in respect of these items. The maximum exposure to credit risk in respect of the financial guarantees at the end of the reporting period is disclosed in note 45(a).

The Group limits its exposure to credit risk by rigorously selecting the counterparties and to deal with credit worthy counterparties. Credit risk on restricted cash and deposits as well as cash and bank balances (note 29) is mitigated as cash is deposited in banks and financial institutions of high credit rating. The credit and investment policies have been consistently applied and are considered to have been effective in limiting the Group's exposure to credit risk to a desirable level.

For the year ended 31 December 2018 and 2017, the Group did not have significant concentration of credit risk as its trade and other receivables consists of a large number of customers and debtors. Further quantitative data in respect of the Group's exposure to credit risk arising from trade and other receivables are disclosed in note 25.

In respect of trade receivables as at 31 December 2018 and 2017, significant amount was arising from sales of properties and at the end of the reporting period, the application of mortgage loans in respect of those sales was in progress. Management expects that the customers will settle these receivables in due course once the mortgage loans are granted by the banks or the government agencies. In addition, the titles of the related properties have been retained by the banks or the government agencies. Accordingly, management considers that recoverability concerns over those receivables are remote.

The Group typically provides guarantees to banks or government agencies in connection with the customers' borrowing of mortgage loans to finance their purchase of properties (note 45(a)). If a purchaser defaults on the payment of the mortgage during the period of guarantee, the bank or government agency holding the mortgage may demand the Group to repay the outstanding loan and any interest accrued thereon. As the mortgage loans are generally secured by properties with current market price higher than the guaranteed amounts, the management considers it would recover any loss incurred arising from the guarantee provided by the Group. In addition, the Group provided guarantees to a bank for a bank loan of a joint venture. In the opinion of the management, it is not probable that the joint venture would default payment of the bank loan and accordingly, the Group's credit risk in this respect is remote.

Notes to the Financial Statements (*continued*)

49. FINANCIAL RISK MANAGEMENT (CONTINUED)

49.3 Credit risk (Continued)

Impairment under ECL model

As disclosed in note 3.13A(ii), the Group recognizes loss allowance for ECL on debt instruments carried at amortized cost and measured at fair value through other comprehensive income. The Group applies simplified approach to measure ECL on trade receivables; and general approach to measure ECL on other receivables, amounts due from an associate, a joint venture and non-controlling interests, restricted cash and deposits and cash and bank balances. Under the simplified approach, the Group measures the loss allowance at an amount equal to lifetime ECL. Under the general approach, the Group applies the "3-stage" impairment model for ECL measurement based on change in credit risk since initial recognition as follows:

- Stage 1: If the credit risk of the financial instrument has not increased significantly since initial recognition, the financial instrument is included in Stage 1.
- Stage 2: If the credit risk of the financial instrument has increased significantly since its initial recognition but is not deemed to be credit-impaired, the financial instrument is included in Stage 2.
- Stage 3: If the financial instrument is credit-impaired, the financial instrument is included in Stage 3.

The ECL for financial instruments in Stage 1 are measured at an amount equivalent to 12-month ECL whereas the ECL for financial instruments in Stage 2 or Stage 3 are measured at an amount equivalent to lifetime ECL.

When determining whether the risk of default has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit risk assessment and including forward-looking information.

Having regard to industry practice, relevant regulation and government measures, as well as the background and behavior of the debtors/counterparties, the Group assumes that the credit risk on a financial asset has increased significantly if it is more than 90 days past due unless the Group has reasonable and supportable information that demonstrates otherwise. In addition, the Group considers that a financial asset to be in default when: (i) the debtor is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held); or (ii) the financial asset is more than 180 days past due, unless the Group has reasonable and supportable information to demonstrate that a more lagging default criteria is more appropriate.

49. FINANCIAL RISK MANAGEMENT (CONTINUED)

49.3 Credit risk (Continued)

Impairment under ECL model (Continued)

At the end of each reporting period, the Group assesses whether a financial asset is credit-impaired. A financial asset is considered as credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:

- (a) significant financial difficulty of the debtor;
- (b) a breach of contract, such as a default or past due event;
- (c) granting a concession to the debtors that the lender would not otherwise consider for economic or contractual reasons relating to the debtor's financial difficulty; or
- (d) it is becoming probable that the debtor will enter bankruptcy or other financial reorganization.

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 of default. The assessment of the probability of default and loss given default is based on historical data and adjusted for forward-looking information through the use of industry trend and experienced credit judgment to reflect the qualitative factors, and through the use of multiple probability-weighted scenarios.

49.4 Liquidity risk

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group is exposed to liquidity risk in respect of settlement of trade and other payables including amounts due to related companies and its financing obligations, and also in respect of its cash flow management. The Group's objective is to maintain prudent liquidity risk management which is to maintain sufficient cash and bank balances as well as to make available of fund through adequate amounts of committed credit facilities and the ability to close out market positions. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. The liquidity policies have been consistently applied and are considered to have been effective in managing liquidity risk.

The following tables summarize the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities based on agreed scheduled repayment dates set out in the agreements or the repayment schedules agreed with the banks and other lenders.

Notes to the Financial Statements (*continued*)

49. FINANCIAL RISK MANAGEMENT (CONTINUED)

49.4 Liquidity risk (Continued)

	Carrying amount HK\$'000	Total contractual undiscounted cash flow HK\$'000	On demand or within 1 year HK\$'000	1 to 2 years HK\$'000	2 to 5 years HK\$'000
As at 31 December 2018					
Non-derivatives					
Bank borrowings	24,047,543	26,144,039	5,805,753	10,635,255	9,703,031
Other loans	1,483,690	1,567,019	1,567,019	–	–
Guaranteed notes payable	7,135,733	7,623,822	3,411,806	191,344	4,020,672
Trade payables, other payables and accruals	9,946,637	9,946,637	9,946,637	–	–
Amounts due to associates	26,631	26,631	26,631	–	–
Amounts due to joint ventures	1,345,871	1,345,871	1,345,871	–	–
Amounts due to non-controlling interests	2,333,114	2,333,114	2,333,114	–	–
Amount due to related companies	431,856	439,168	350,296	88,872	–
	46,751,075	49,426,301	24,787,127	10,915,471	13,723,703
Derivatives					
Financial guarantees issued — Maximum amount guaranteed	–	33,704,083	33,704,083	–	–

Notes to the Financial Statements (*continued*)

49. FINANCIAL RISK MANAGEMENT (CONTINUED)

49.4 Liquidity risk (Continued)

	Carrying amount HK\$'000	Total contractual undiscounted cash flow HK\$'000	On demand or within 1 year HK\$'000	1 to 2 years HK\$'000	2 to 5 years HK\$'000
As at 31 December 2017					
Non-derivatives					
Bank borrowings	22,417,388	24,443,030	5,204,176	2,940,083	16,298,771
Other loans	1,794,450	1,922,320	673,807	1,248,513	–
Guaranteed notes payable	3,159,180	3,338,313	158,875	3,179,438	–
Trade payables, other payables and accruals	9,151,432	9,151,432	9,151,432	–	–
Amounts due to associates	176,876	176,876	176,876	–	–
Amounts due to joint ventures	1,234,203	1,234,203	1,234,203	–	–
Amounts due to non-controlling interests	613,424	613,424	613,424	–	–
Amounts due to related companies	4,942,323	5,034,487	4,937,057	4,263	93,167
	43,489,276	45,914,085	22,149,850	7,372,297	16,391,938
Derivatives					
Financial guarantees issued					
— Maximum amount guaranteed	–	31,686,738	31,686,738	–	–

The contractual financial guarantees provided by the Group are disclosed in note 45(a). As assessed by the directors, it is not probable that the banks or government agencies would claim the Group for losses in respect of the guarantee contracts due to security in place for the mortgage loans as mentioned in note 49.3 above. In addition, having regard to the financial position of the joint venture, the directors are in the opinion that it is not probable that the joint venture will default payment of the bank loan.

Notes to the Financial Statements (*continued*)

50. PARTICULARS OF SUBSIDIARIES

The particulars of the subsidiaries as at 31 December 2018 are as follows:

Name of subsidiaries	Place of incorporation/ operation	Class of shares held	Paid up issued/ registered capital	Proportion of nominal value of issued/registered capital held by the Company		Principal activities
				Directly	Indirectly	
Be Affluent Limited	British Virgin Islands	Ordinary	1 share of US\$1 each	–	100%	Investment holding
Best Beauty Investments Limited	British Virgin Islands	Ordinary	1 share of US\$1 each	–	100%	Investment holding
Big Leader International Limited	Hong Kong	Ordinary	HK\$1	–	100%	Investment holding
Bliss China Limited	British Virgin Islands	Ordinary	1 share of US\$1 each	–	100%	Investment holding
Bliss Depot Limited	British Virgin Islands	Ordinary	1 share of US\$1 each	–	100%	Investment holding
Capital Way Investment Limited	Hong Kong	Ordinary	HK\$1	–	100%	Investment holding
Celestial Wealth Developments Limited	British Virgin Islands	Ordinary	1 share of US\$1 each	–	100%	Investment holding
China Grand (H.K.) Limited	Hong Kong	Ordinary	HK\$1	–	100%	Investment holding
China Overseas Grand Oceans Finance II (Cayman) Limited	Cayman Islands	Ordinary	1 share of US\$1 each	100%	–	Fund raising and on-lending
China Overseas Grand Oceans Finance IV (Cayman) Limited (note)	Cayman Islands	Ordinary	1 share of US\$1 each	100%	–	Fund raising and on-lending
China Overseas Grand Oceans Investments Limited	Hong Kong	Ordinary	HK\$1	100%	–	Investment holding
China Overseas Grand Oceans Property Group Company Limited	PRC ^a	Paid up capital	RMB133,000,000	–	100%	Investment holding and property development
China Overseas Yin Chuan Investments Limited	Hong Kong	Ordinary	HK\$1	–	100%	Investment holding
Citirich International Limited	Hong Kong	Ordinary	HK\$1	–	100%	Investment holding
City Glory Holdings Limited	British Virgin Islands	Ordinary	1 share of US\$1 each	–	100%	Investment holding
East Pacific (H.K.) Limited	Hong Kong	Ordinary	HK\$1	–	100%	Investment holding
Elite Way Developments Limited	British Virgin Islands	Ordinary	1 share of US\$1 each	–	100%	Investment holding
Ever United Development Limited	Hong Kong	Ordinary	HK\$1	100%	–	Financing and investment
Flourish Ray Developments Limited	British Virgin Islands	Ordinary	1 share of US\$1 each	–	100%	Investment holding
Global East Development Limited	Hong Kong	Ordinary	HK\$1	–	100%	Investment holding
Grand Marine Investment Limited	British Virgin Islands	Ordinary	1 share of US\$1 each	–	100%	Investment holding
Grand Success Group Holdings Limited	Hong Kong	Ordinary	HK\$1	–	100%	Investment holding

Notes to the Financial Statements (*continued*)

50. PARTICULARS OF SUBSIDIARIES (CONTINUED)

Name of subsidiaries	Place of incorporation/ operation	Class of shares held	Paid up issued/ registered capital	Proportion of nominal value of issued/registered capital held by the Company		Principal activities
				Directly	Indirectly	
Grandwide (H.K.) Limited	Hong Kong	Ordinary	HK\$1	–	100%	Investment holding
Grand Will Asia Pacific Limited	Hong Kong	Ordinary	HK\$1	–	100%	Investment holding
Grandca International Limited	Hong Kong	Ordinary	HK\$1	–	100%	Investment holding
Greatbo (H.K.) Limited	Hong Kong	Ordinary	HK\$1	–	100%	Investment holding
Great Kind Development Limited	Hong Kong	Ordinary	HK\$1	–	100%	Investment holding
Green Fortune Developments Limited	British Virgin Islands	Ordinary	1 share of US\$1 each	–	100%	Investment holding
Guan Hai Investments Limited	British Virgin Islands	Ordinary	1 share of US\$1 each	100%	–	Investment holding
Hai Jian International Limited	British Virgin Islands	Ordinary	1 share of US\$1 each	–	100%	Investment holding
Han Yang Limited	British Virgin Islands	Ordinary	1 share of US\$1 each	–	100%	Investment holding
Hero Path Investments Limited	British Virgin Islands	Ordinary	1 share of US\$1 each	–	100%	Investment holding
High Faith Investments Limited	British Virgin Islands	Ordinary	1 share of US\$1 each	–	100%	Investment holding
Hongbo Global Limited	British Virgin Islands	Ordinary	1 share of US\$1 each	–	100%	Investment holding
Hong Bao Limited	British Virgin Islands	Ordinary	1 share of US\$1 each	–	100%	Investment holding
Jet Pacific Investment Limited	Hong Kong	Ordinary	HK\$1	–	100%	Investment holding
Long Capital Investment Limited	Hong Kong	Ordinary	HK\$1	–	100%	Investment holding
Longwide Holdings Limited	Hong Kong	Ordinary	HK\$1	–	100%	Investment holding
Main Lucky International Limited	Hong Kong	Ordinary	HK\$1	–	100%	Investment holding
Maple Moon Limited	British Virgin Islands	Ordinary	1 share of US\$1 each	–	100%	Investment holding
Marine Key Investments Limited	British Virgin Islands	Ordinary	1 share of US\$1 each	–	100%	Investment holding
Max Pacific Investment Limited	Hong Kong	Ordinary	HK\$1	–	100%	Investment holding
Moonstar Development Limited	Hong Kong	Ordinary	HK\$1	–	100%	Investment holding
Ocean Continent Investments Limited	British Virgin Islands	Ordinary	1 share of US\$1 each	–	100%	Investment holding
Ocean Ease Developments Limited	British Virgin Islands	Ordinary	1 share of US\$1 each	–	100%	Investment holding
Ocean Empire Developments Limited	British Virgin Islands	Ordinary	1 share of US\$1 each	–	100%	Investment holding

Notes to the Financial Statements (*continued*)

50. PARTICULARS OF SUBSIDIARIES (CONTINUED)

Name of subsidiaries	Place of incorporation/ operation	Class of shares held	Paid up issued/ registered capital	Proportion of nominal value of issued/registered capital held by the Company		Principal activities
				Directly	Indirectly	
Oceanic Roc Limited	British Virgin Islands	Ordinary	1 share of US\$1 each	–	100%	Investment holding
Pacific King Holdings Limited	Hong Kong	Ordinary	HK\$1	–	100%	Investment holding
Pandue Investments Limited	British Virgin Islands	Ordinary	100 shares of US\$1 each	100%	–	Investment holding
Precious Joy Investments Limited	British Virgin Islands	Ordinary	1 share of US\$1 each	–	100%	Investment holding
Qiangfa Holdings Limited	British Virgin Islands	Ordinary	1 share of US\$1 each	–	100%	Investment holding
Rainbow Hero Investments Limited	British Virgin Islands	Ordinary	1 share of US\$1 each	–	100%	Investment holding
Sea Coral Enterprises Limited	British Virgin Islands	Ordinary	1 share of US\$1 each	–	100%	Investment holding
Sino Global Development Limited	Hong Kong	Ordinary	HK\$1	–	100%	Investment holding
Sure Shine International Limited	British Virgin Islands	Ordinary	1 share of US\$1 each	–	100%	Investment holding
Talent Race Holdings Limited	Hong Kong	Ordinary	HK\$1	–	100%	Investment holding
Top Wonder International Limited	Hong Kong	Ordinary	HK\$1	–	100%	Investment holding
Unibo Holdings Limited	Hong Kong	Ordinary	HK\$1	–	100%	Investment holding
Wan Chang International Limited	British Virgin Islands	Ordinary	1 share of US\$1 each	–	100%	Investment holding
Well Great (H.K.) Limited	Hong Kong	Ordinary	HK\$1	–	100%	Investment holding
World Dynasty Limited	Hong Kong	Ordinary	HK\$1	–	100%	Investment holding
World United International Limited	Hong Kong	Ordinary	HK\$1	–	100%	Investment holding
上海中海宏洋置業有限公司	PRC [#]	Paid up capital	RMB15,000,000	–	100%	Investment holding
中海宏洋地產(合肥)有限公司	PRC [^]	Paid up capital	RMB580,000,000	–	100%	Property development
中海宏洋地產(銀川)有限公司	PRC [*]	Paid up capital	RMB840,000,000	–	85%	Property development
中海宏洋地產(贛州)有限公司	PRC [*]	Paid up capital	RMB100,000,000 (2017: RMB600,000,000)	–	88%	Property development
中海宏洋地產(揚州)有限公司	PRC [^]	Paid up capital	RMB1,000,000,000	–	100%	Property development
中海宏洋地產(常州)有限公司	PRC [^]	Paid up capital	RMB600,000,000	–	100%	Property development
中海宏洋地產(鹽城)有限公司	PRC [^]	Paid up capital	RMB938,839,800 (2017: RMB798,218,000)	–	100%	Property development
中海宏洋置地(常州)有限公司	PRC [^]	Paid up capital	RMB50,000,000 (2017: RMB700,000,000)	–	100%	Property development

Notes to the Financial Statements (*continued*)

50. PARTICULARS OF SUBSIDIARIES (CONTINUED)

Name of subsidiaries	Place of incorporation/ operation	Class of shares held	Paid up issued/ registered capital	Proportion of nominal value of issued/registered capital held by the Company		Principal activities
				Directly	Indirectly	
中海宏洋置地(鹽城)有限公司	PRC [^]	Paid up capital	RMB350,000,000	–	100%	Property development
中海宏洋置業(合肥)有限公司	PRC [^]	Paid up capital	RMB1,000,000,000	–	100%	Property development
中海宏洋置業(常州)有限公司	PRC [^]	Paid up capital	RMB1,000,000,000	–	100%	Property development
中海宏洋(南通)投資開發有限公司	PRC [^]	Paid up capital	RMB600,000,000	–	100%	Property development
中海海宏(南通)投資開發有限公司	PRC [^]	Paid up capital	RMB50,000,000 (2017: RMB500,000,000)	–	100%	Property development
北京中海宏洋地產有限公司	PRC [#]	Paid up capital	RMB28,000,000	–	100%	Investment holding and property development
北京中京藝苑置業有限公司	PRC [#]	Paid up capital	RMB30,000,000	–	100%	Property investment and property leasing
北京華世柏利房地產開發有限公司	PRC [#]	Paid up capital	RMB60,000,000	–	90%	Property development
北京快樂城堡購物中心有限公司	PRC [#]	Paid up capital	RMB10,000,000	–	100%	Property leasing
北京通惠房地產開發有限責任公司	PRC [#]	Paid up capital	RMB100,000,000	–	100%	Property development
呼和浩特光大環城建設開發有限公司	PRC [#]	Paid up capital	RMB120,000,000	–	80%	Property development
呼和浩特市中海宏洋地產有限公司	PRC [#]	Paid up capital	RMB50,000,000	–	100%	Property development
呼和浩特市榮城房地產開發有限公司	PRC [#]	Paid up capital	RMB15,000,000	–	100%	Property development
南寧中海宏洋房地產有限公司	PRC [#]	Paid up capital	RMB20,000,000	–	100%	Property development
深圳市建地投資有限公司	PRC [#]	Paid up capital	RMB10,000,000	–	100%	Investment holding
廣州中海橡園房地產發展有限公司	PRC [#]	Paid up capital	RMB10,000,000	–	100%	Property development
廣州市光大花園房地產開發有限公司	PRC [*]	Paid up capital	RMB800,000,000	–	100%	Property development
廣州新都房地產發展有限公司	PRC [#]	Paid up capital	RMB10,000,000	–	90%	Property development
蘭州中海宏洋房地產開發有限公司	PRC [#]	Paid up capital	RMB1,000,000,000	–	100%	Property development
吉林市中海宏洋房地產開發有限公司	PRC [#]	Paid up capital	RMB10,000,000	–	100%	Property development
吉林市怡恒偉業房地產開發有限公司	PRC [#]	Paid up capital	RMB200,000,000	–	70%	Property development
吉林市中海海華房地產開發有限公司	PRC [#]	Paid up capital	RMB50,000,000	–	85%	Property development
桂林建禹地產有限公司	PRC [#]	Paid up capital	RMB10,000,000	–	100%	Property development

Notes to the Financial Statements (*continued*)

50. PARTICULARS OF SUBSIDIARIES (CONTINUED)

Name of subsidiaries	Place of incorporation/ operation	Class of shares held	Paid up issued/ registered capital	Proportion of nominal value of issued/registered capital held by the Company		Principal activities
				Directly	Indirectly	
合肥中海新華房地產開發有限公司	PRC [#]	Paid up capital	RMB20,000,000	–	60%	Property development
合肥中海榮祥房地產開發有限公司	PRC [#]	Paid up capital	RMB20,000,000	–	100%	Property development
南寧中海宏洋置業有限公司	PRC [^]	Paid up capital	RMB1,700,000,000	–	100%	Property development
紹興中海宏洋地產有限公司	PRC [#]	Paid up capital	RMB50,000,000	–	100%	Property development
揚州中海宏洋置業有限公司	PRC [#]	Paid up capital	RMB50,000,000	–	100%	Property development
揚州中潤置業有限公司	PRC [^]	Paid up capital	RMB758,000,000	–	100%	Property development
汕頭市中海宏洋地產有限公司	PRC [#]	Paid up capital	RMB230,000,000	–	100%	Property development
汕頭市中海宏洋置業有限公司	PRC [#]	Paid up capital	RMB50,000,000	–	100%	Property development
中海宏洋地產(徐州)有限公司	PRC [^]	Paid up capital	RMB126,150,000	–	100%	Property development
中海宏洋(鹽城)房地產開發有限公司	PRC [*]	Paid up capital	RMB344,375,000	–	100%	Property development
中海宏洋地產(黃山)有限公司	PRC [*]	Paid up capital	US\$2,500,000	–	55%	Property development
中海潤洋置業(揚州)有限公司	PRC [^]	Paid up capital	US\$60,000,000	–	100%	Property development
中海宏洋(深圳)投資有限公司	PRC [^]	Paid up capital	RMB244,000,000	–	100%	Property development
中海慶西湖房地產揚州有限公司	PRC [#]	Paid up capital	RMB240,000,000	–	70%	Property development
揚州市江都區信泰置業有限公司	PRC [#]	Paid up capital	RMB185,600,000	–	100%	Property development
中海宏洋地產汕頭投資有限公司	PRC [#]	Paid up capital	RMB370,000,000	–	100%	Property development
汕頭中海宏洋南濱大酒店有限公司	PRC [#]	Paid up capital	RMB10,000,000	–	100%	Hotel operation
汕頭中信南烽房地產有限公司	PRC [#]	Paid up capital	RMB20,000,000	–	51%	Property development
汕頭市金平區中信房產開發有限公司	PRC [#]	Paid up capital	RMB10,000,000	–	70%	Property development
中海宏洋惠州控股有限公司	PRC [#]	Paid up capital	RMB200,000,000	–	100%	Property development
惠州市中海宏洋地產有限公司	PRC [#]	Paid up capital	RMB200,000,000	–	100%	Property development
中海宏洋惠州城市建設開發有限公司	PRC [#]	Paid up capital	RMB130,000,000	–	100%	Property development
惠州盈通投資有限公司	PRC [#]	Paid up capital	RMB60,000,000	–	100%	Property development
中海宏洋惠州湯泉開發有限公司 (Formerly known as 中海宏洋惠州湯泉旅遊度假村有限公司)	PRC [#]	Paid up capital	RMB60,000,000	–	100%	Hotel operation

Notes to the Financial Statements (*continued*)

50. PARTICULARS OF SUBSIDIARIES (CONTINUED)

Name of subsidiaries	Place of incorporation/ operation	Class of shares held	Paid up issued/ registered capital	Proportion of nominal value of issued/registered capital held by the Company		Principal activities
				Directly	Indirectly	
南昌宏洋地產有限公司	PRC [#]	Paid up capital	RMB20,000,000	–	100%	Property development
中海宏洋蘆山西海(九江)投資有限公司	PRC [#]	Paid up capital	RMB800,000,000	–	100%	Property development
九江市深水灣投資有限公司	PRC [#]	Paid up capital	RMB10,000,000	–	100%	Property development
九江市桃花里投資有限公司	PRC [#]	Paid up capital	RMB10,000,000	–	100%	Property development
九江市溪谷投資有限公司	PRC [#]	Paid up capital	RMB10,000,000	–	100%	Property development
九江市納帕谷投資有限公司	PRC [#]	Paid up capital	RMB10,000,000	–	100%	Property development
淄博中海海頤置業有限公司	PRC [^]	Paid up capital	RMB266,360,000	–	100%	Property development
淄博中海海悅置業有限公司	PRC [^]	Paid up capital	RMB220,369,600	–	100%	Property development
淄博中海海昌置業有限公司	PRC [^]	Paid up capital	RMB206,571,410	–	100%	Property development
中海淄博置業有限公司	PRC [^]	Paid up capital	HK\$770,000,000	–	100%	Property development
濰坊中海興業房地產有限公司	PRC [#]	Paid up capital	RMB50,000,000	–	100%	Property development
中海宏洋置業(徐州)有限公司	PRC [#]	Paid up capital	RMB60,000,000 (2017: nil)	–	34%	Property development
西寧中海宏洋房地產開發有限公司	PRC [#]	Paid up capital	RMB20,000,000	–	100%	Property development
贛州中海地產有限公司	PRC [#]	Paid up capital	RMB10,000,000	–	100%	Property development
中海海華南通地產有限公司	PRC [#]	Paid up capital	RMB20,000,000	–	100%	Property development
合肥中海宏洋海東房地產開發有限公司	PRC [#]	Paid up capital	RMB10,000,000	–	100%	Property development
合肥中海宏洋海創房地產開發有限公司	PRC [#]	Paid up capital	RMB10,000,000	–	100%	Property development
揚州海龍置業有限公司	PRC [#]	Paid up capital	RMB50,000,000 (2017: nil)	–	100%	Property development
揚州海富置業有限公司	PRC [#]	Paid up capital	RMB50,000,000 (2017: nil)	–	100%	Property development
包頭市中海宏洋地產有限公司	PRC [#]	Paid up capital	RMB10,000,000	–	60%	Property development
蘭州中海海富房地產開發有限公司	PRC [#]	Paid up capital	RMB10,000,000 (2017: nil)	–	100%	Property development
包頭市宏洋海富地產有限公司 (note)	PRC [#]	Paid up capital	RMB10,000,000	–	100%	Property development
贛州中海海華房地產有限公司 (note)	PRC [#]	Paid up capital	RMB10,000,000	–	100%	Property development

Notes to the Financial Statements (*continued*)

50. PARTICULARS OF SUBSIDIARIES (CONTINUED)

Name of subsidiaries	Place of incorporation/ operation	Class of shares held	Paid up issued/ registered capital	Proportion of nominal value of issued/registered capital held by the Company		Principal activities
				Directly	Indirectly	
鹽城潤洋置業有限公司 (note)	PRC [#]	Paid up capital	RMB20,000,000	–	100%	Property development
南通市華璽房地產有限公司 (note)	PRC [#]	Paid up capital	RMB20,000,000	–	30%	Property development
南通市中海海富房地產開發有限公司 (note)	PRC [#]	Paid up capital	RMB20,000,000	–	100%	Property development
吉林市中海海富房地產開發有限公司 (note)	PRC [#]	Paid up capital	RMB10,000,000	–	100%	Property development
吉林市中海海悅房地產開發有限公司 (note)	PRC [#]	Paid up capital	RMB10,000,000	–	100%	Property development
銀川中海海華置業有限公司 (note)	PRC [#]	Paid up capital	–	–	100%	Property development
柳州中海宏洋房地產有限公司 (note)	PRC [#]	Paid up capital	RMB20,000,000	–	70%	Property development
蘭州中海環宇商業運營管理有限公司 (note)	PRC [#]	Paid up capital	–	–	100%	Provision of property management services
濟寧中海宏洋地產有限公司 (note)	PRC [#]	Paid up capital	–	–	100%	Property development
合肥中海宏洋海悅房地產開發有限公司 (note)	PRC [#]	Paid up capital	RMB50,000,000	–	100%	Property development

Note:

These subsidiaries were newly established or invested during the year ended 31 December 2018.

[^] The companies are incorporated in the PRC as wholly-foreign-owned enterprises.

^{*} The companies are incorporated in the PRC as sino-foreign equity joint ventures.

[#] The companies are incorporated in the PRC as limited liability companies.

None of the subsidiaries had any debt securities in issue at the end of the reporting period except for COGO Finance II and COGO Finance IV which had issued 2014 Guaranteed Notes and 2018 Guaranteed Notes as set out in note 34. None of these guaranteed notes were held by the Group.

Notes to the Financial Statements (*continued*)

51. PARTICULARS OF ASSOCIATES

The particulars of the associates as at 31 December 2018 are as follows:

Name of associates	Place of incorporation/ operation	Class of shares held	Paid up issued/ registered capital	Proportion of nominal value of issued/registered capital held by the Company		Principal activities
				Directly	Indirectly	
中信房地產汕頭華鑫有限公司	PRC [#]	Paid up capital	RMB10,000,000	–	30%	Property development
中信房地產汕頭金城有限公司	PRC [#]	Paid up capital	RMB10,000,000	–	45%	Property development
汕頭市中信濱河房地產有限公司	PRC [#]	Paid up capital	RMB10,000,000	–	45%	Property development

[#] The companies are incorporated in the PRC as limited liability companies.

52. PARTICULARS OF JOINT VENTURES

The particulars of the joint ventures as at 31 December 2018 are as follows:

Name of joint ventures	Place of incorporation/ operation	Class of shares held	Paid up issued/ registered capital	Proportion of nominal value of issued/registered capital held by the Company		Principal activities
				Directly	Indirectly	
上海金鶴數碼科技發展有限公司	PRC [*]	Paid up capital	US\$2,400,000	–	65%	Property investment and property leasing
中海宏洋海富(合肥)房地產開發有限公司	PRC [*]	Paid up capital	RMB550,000,000	–	45%	Property development
汕頭中海凱旋置業有限公司	PRC [#]	Paid up capital	RMB102,040,816	–	51%	Property development

^{*} The companies are incorporated in the PRC as sino-foreign equity joint ventures.

[#] The company is incorporated in the PRC as limited liability company.

Independent Auditor's Report



Tel : +852 2218 8288
Fax: +852 2815 2239
www.bdo.com.hk

25th Floor Wing On Centre
111 Connaught Road Central
Hong Kong

電話：+852 2218 8288
傳真：+852 2815 2239
www.bdo.com.hk

香港干諾道中111號
永安中心25樓

To the members of China Overseas Grand Oceans Group Limited

中國海外宏洋集團有限公司

(incorporated in Hong Kong with limited liability)

OPINION

We have audited the consolidated financial statements of China Overseas Grand Oceans Group Limited (the "Company") and its subsidiaries (together the "Group") set out on page 72 to page 193, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the 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 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the HKICPA's "Code of Ethics for Professional Accountants" (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. 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.

BDO Limited
香港立信德豪會計師事務所有限公司

BDO Limited, a Hong Kong limited company, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

Independent Auditor's Report (continued)

KEY AUDIT MATTERS (CONTINUED)

Determining net realizable value of inventories of properties

Refer to notes 5.1(b) and 23 in the consolidated financial statements

The carrying value of the Group's inventories of properties as at 31 December 2019 was RMB86,397,320,000.

Inventories of properties are stated at the lower of cost and net realizable value. In assessing net realizable value, management has to determine the selling prices of inventories of properties which is based on management's judgment and expectation of property market in Mainland China. Future selling prices could fluctuate significantly subject to factors including market conditions and government measures on controlling property market and policies such as urbanization policy and monetary policy. In addition, due to the unique nature of individual properties, estimation of selling prices is highly subjective which requires management's judgment on customer preferences.

We have identified the determination of net realizable value of inventories of properties as key audit matter due to considerable amount of estimation and judgment applied by the management, and difficulty in reliably gauging the impact arising from government's measures and policies which have direct impact on the property market in Mainland China and are prevailing at year end.

Our procedures in relation to management's assessment of the net realizable value of the inventories of properties mainly included:

- Assessing the reasonableness of management's estimates of net realizable value based on our knowledge of the business and industry, taking into account recent developments in the property market in Mainland China as supported by recent sales transactions or market information.
- Checking the accuracy and relevance of market data such as market prices of comparable properties provided by management.
- Independently assessing management's judgment in estimating the impact of those government measures and policies on the selling prices of properties.
- Assessing whether there is evidence of management bias on determining net realizable value by considering the consistency of judgment made by the management year on year through discussion with the management to understand their rationale.
- Challenging the estimations and assumptions used by the management by assessing the reliability of management's past estimates.

KEY AUDIT MATTERS (CONTINUED)

Recognition of revenue from sales of properties

Refer to notes 4.16, 5.2(a), 6 and 7 in the consolidated financial statements

Revenue from sales of properties is recognized over time when the Group's performance under a sales contract does not create an asset with an alternative use to the Group and the Group has enforceable right to payment for performance completed to date; otherwise, revenue from sales of properties is recognized at a point in time when the customer obtains control of the completed property. For the year ended 31 December 2019, the Group recognized revenue from sales of properties amounting to RMB28,317,217,000, of which RMB5,857,234,000 was recognized over time.

The Group is contractually restricted from changing or substituting the property unit or redirecting the property unit for another use based on the terms of the sales contract and therefore the property unit does not have an alternative use to the Group. However, whether the Group has an enforceable right to payment from the customer for performance completed to date depends on the terms of the sales contract and the interpretation of the applicable laws that apply to the contract. Such determination requires significant judgment. Management uses judgment, with reference to a legal advice, to classify the sales contracts into those with enforceable right to repayment and those without the right.

When the properties have no alternative use to the Group and the Group has an enforceable right to payment from the customers for performance completed to date, the Group recognizes revenue from sales of properties over time using input method, which is determined with reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. The Group estimates the development costs of each project based on the development plan as well as contractor fees and construction material price lists, taking into account market and economic factors.

We have identified the recognition of revenue from sales of properties as key audit matter due to significant judgment applied by the management in assessing whether the Group has the enforceable right to payment in the sales contracts with revenue being recognized over time. In addition, significant judgment and estimations are required in determining the estimated development costs for arriving at the progress towards complete satisfaction of the performance obligation at the end of the reporting period.

Independent Auditor's Report (*continued*)

KEY AUDIT MATTERS (CONTINUED)

Recognition of revenue from sales of properties (Continued)

Our procedures in relation to management's assessment of whether the Group has an enforceable right to payment in the sales contracts mainly included:

- Obtaining an understanding regarding management's assessment in identifying sales contracts with or without the enforceable right to payment and evaluating the appropriateness of management's assessment;
- Reviewing the terms of sales contracts, on a sample basis, to assess if the Group has the enforceable right to payment based on the contract terms;
- Understanding the legal advice provided by the Group's legal advisor, including the legal advisor's interpretation of the applicable laws and the implication on the assessment of the enforceability of the right to payment; and
- Assessing the competency, experience and objectivity of the legal advisor engaged by the Group.

Our procedures in relation to management's estimates of the total development costs of the property projects and the progress towards complete satisfaction of the performance obligation mainly included:

- Understanding the procedures and relevant controls of the Group in preparing and updating the cost budget for property projects and recording contract costs incurred;
- Comparing the budgeted cost to budget approved by management;
- Testing the budgeted cost, on a sample basis, to respective contracts and underlying supporting documents;
- Testing contract costs incurred to date and estimated total costs, on a sample basis, to underlying supporting documents and the reports from external supervisor, where applicable; and
- Assessing the reliability of cost budgets by comparing actual development costs against budgeted costs of completed property.

OTHER INFORMATION IN THE ANNUAL REPORT

The directors are responsible for the other information. The other information comprises the information included in the Company's 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.

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are also responsible for overseeing the Group's financial reporting process. The Audit Committee assists the directors in discharging their responsibilities in this regard.

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. This report is made solely to you, as a body, in accordance with Section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Independent Auditor's Report (*continued*)

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

As part of an audit in accordance with HKSAAs, 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.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, 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.

BDO Limited

Certified Public Accountants

Lee Ming Wai

Practising Certificate no. P05682

Hong Kong, 20 March 2020

Consolidated Income Statement

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 RMB'000	2018 RMB'000 (Re-presented)
Revenue	6	28,590,883	21,524,668
Cost of sales and services provided		(19,063,036)	(15,263,950)
Gross profit		9,527,847	6,260,718
Other income	8	390,937	368,482
Distribution and selling expenses		(1,147,953)	(708,029)
Administrative expenses		(793,301)	(607,940)
Other operating expenses		(31,917)	(134,961)
Other gains or losses			
Fair value gain on reclassification of inventories of properties to investment properties	15(a)	72,179	–
Gain on disposal of investment properties	15(c)	2,355	1,829
Change in fair value of a derivative financial instrument	22	(3,927)	2,098
Gain on bargain purchase	42	4	–
Operating profit		8,016,224	5,182,197
Finance costs	10	(33,843)	(77,665)
Share of results of associates		22,657	10,302
Share of results of joint ventures		290,534	224,013
Profit before income tax	9	8,295,572	5,338,847
Income tax expense	11	(4,798,611)	(3,233,178)
Profit for the year		3,496,961	2,105,669
Profit for the year attributable to:			
Owners of the Company		3,329,681	2,043,204
Non-controlling interests		167,280	62,465
		3,496,961	2,105,669
		RMB Cents	RMB Cents (Re-presented)
Earnings per share	13		
Basic		97.3	61.5
Diluted		97.3	61.5

Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2019

	2019 RMB'000	2018 RMB'000 (Re-presented)
Profit for the year	3,496,961	2,105,669
Other comprehensive income		
<i>Items that may be reclassified subsequently to profit or loss</i>		
Exchange differences arising from translation into presentation currency	(302,751)	(366,561)
Other comprehensive income for the year, net of tax	(302,751)	(366,561)
Total comprehensive income for the year	3,194,210	1,739,108
Total comprehensive income attributable to:		
Owners of the Company	3,026,930	1,676,643
Non-controlling interests	167,280	62,465
	3,194,210	1,739,108

Consolidated Statement of Financial Position

AS AT 31 DECEMBER 2019

	Notes	31 December 2019 RMB'000	31 December 2018 RMB'000 (Re-presented)	1 January 2018 RMB'000
ASSETS AND LIABILITIES				
Non-current assets				
Investment properties	15	2,744,787	2,337,314	2,369,977
Property, plant and equipment	16	1,090,024	1,020,577	992,590
Right-of-use assets	40	348,544	–	–
Prepaid lease rental on land	17	–	263,986	271,979
Intangible assets	18	–	2,908	6,785
Interests in associates	19	46,299	23,642	113,606
Interests in joint ventures	20	901,626	611,092	387,079
Amount due from a joint venture	28	–	–	255,000
Financial assets at fair value through other comprehensive income	21	1,000	1,000	1,000
A derivative financial instrument	22	–	3,914	1,650
Deferred tax assets	36	609,534	161,351	278,471
		5,741,814	4,425,784	4,678,137
Current assets				
Inventories of properties	23	86,397,320	59,303,130	44,188,016
Other inventories	24	4,269	1,631	1,722
Contract assets	25	49,732	14,007	5,963
Trade and other receivables, prepayments and deposits	26	11,867,467	8,894,882	8,188,368
Prepaid lease rental on land	17	–	7,993	7,993
Amount due from an associate	27	60,436	59,676	56,921
Amount due from a joint venture	28	479	255,000	–
Amounts due from non-controlling interests	29	581,245	408,250	295,643
Amount due from a related company	30	171,543	–	–
Tax prepaid		1,796,235	1,110,581	1,155,742
Restricted cash and deposits	31	10,671,299	6,924,235	6,313,640
Cash and bank balances	31	16,755,435	22,221,637	13,499,328
		128,355,460	99,201,022	73,713,336

Consolidated Statement of Financial Position *(continued)*

AS AT 31 DECEMBER 2019

	Notes	31 December 2019 RMB'000	31 December 2018 RMB'000 (Re-presented)	1 January 2018 RMB'000
Current liabilities				
Trade and other payables	32	11,989,788	9,481,552	8,236,425
Contract liabilities	33	54,618,728	37,923,862	23,555,683
Amounts due to associates	27	63,823	23,334	147,853
Amounts due to joint ventures	28	815,126	1,179,244	1,031,684
Amounts due to non-controlling interests	29	5,082,077	2,044,260	512,768
Amounts due to related companies	30	379,230	303,364	4,056,314
Lease liabilities	40	11,570	–	–
Guaranteed notes payable	35	–	2,813,771	–
Taxation liabilities		5,940,199	3,034,456	1,902,597
Borrowings	34	11,656,478	5,485,101	4,105,199
		90,557,019	62,288,944	43,548,523
Net current assets		37,798,441	36,912,078	30,164,813
Total assets less current liabilities		43,540,255	41,337,862	34,842,950
Non-current liabilities				
Borrowings	34	15,611,683	16,885,207	16,133,737
Lease liabilities	40	24,588	–	–
Guaranteed notes payable	35	3,521,449	3,438,514	2,640,792
Amount due to a related company	30	–	75,026	75,026
Deferred tax liabilities	36	2,869,227	3,171,148	3,513,814
		22,026,947	23,569,895	22,363,369
Net assets		21,513,308	17,767,967	12,479,581
CAPITAL AND RESERVES				
Share capital	37	5,579,100	5,579,100	1,850,440
Reserves	38	13,966,227	11,461,276	9,957,615
Equity attributable to owners of the Company		19,545,327	17,040,376	11,808,055
Non-controlling interests	39	1,967,981	727,591	671,526
Total equity		21,513,308	17,767,967	12,479,581

On behalf of the directors

Zhuang Yong
Director

Wang Man Kwan, Paul
Director

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2019

	Attributable to owners of the Company							
	Share capital	Translation reserve*	Assets			Retained profits*	Non-controlling interests	Total equity
			revaluation reserve*	Statutory reserve*	Total			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Re-presented)	(Re-presented)	(Re-presented)	(Re-presented)	(Re-presented)	(Re-presented)	(Re-presented)	(Re-presented)
(note 37)	(note 38)	(note 38)	(note 38)	(note 38)	(note 38)	(note 39)	(note 39)	
At 1 January 2018 as originally reported	1,850,440	(218,722)	30,075	935,832	8,835,206	11,432,831	656,918	12,089,749
Adjustment on initial adoption of HKFRS 15	-	-	-	-	375,224	375,224	14,608	389,832
Restated balance as at 1 January 2018	1,850,440	(218,722)	30,075	935,832	9,210,430	11,808,055	671,526	12,479,581
Profit for the year	-	-	-	-	2,043,204	2,043,204	62,465	2,105,669
Exchange differences arising from translation into presentation currency	-	(366,561)	-	-	-	(366,561)	-	(366,561)
Total comprehensive income for the year	-	(366,561)	-	-	2,043,204	1,676,643	62,465	1,739,108
Transfer to PRC statutory reserve	-	-	-	128,667	(128,667)	-	-	-
Issue of shares by way of Rights Issue (note 37)	3,767,588	-	-	-	-	3,767,588	-	3,767,588
Share issue expenses (note 37)	(38,928)	-	-	-	-	(38,928)	-	(38,928)
2018 interim dividend paid (note 12(a))	-	-	-	-	(89,323)	(89,323)	-	(89,323)
2017 final dividend paid (note 12(b))	-	-	-	-	(83,659)	(83,659)	-	(83,659)
Contributions from non-controlling interests	-	-	-	-	-	-	53,600	53,600
Return of capital to non-controlling interests	-	-	-	-	-	-	(60,000)	(60,000)
Transactions with owners	3,728,660	-	-	-	(172,982)	3,555,678	(6,400)	3,549,278
At 31 December 2018	5,579,100	(585,283)	30,075	1,064,499	10,951,985	17,040,376	727,591	17,767,967

Consolidated Statement of Changes in Equity *(continued)*

FOR THE YEAR ENDED 31 DECEMBER 2019

	Attributable to owners of the Company								
	Share capital	Translation reserve*	Assets			Retained profits*	Total	Non- controlling interests	Total equity
			revaluation	Statutory	Total				
			reserve*	reserve*	RMB'000				
RMB'000 (note 37)	RMB'000 (note 38)	RMB'000 (note 38)	RMB'000 (note 38)	RMB'000 (note 38)	RMB'000	RMB'000 (note 39)	RMB'000		
At 1 January 2019 as re-presented	5,579,100	(585,283)	30,075	1,064,499	10,951,985	17,040,376	727,591	17,767,967	
Profit for the year	-	-	-	-	3,329,681	3,329,681	167,280	3,496,961	
Exchange differences arising from translation into presentation currency	-	(302,751)	-	-	-	(302,751)	-	(302,751)	
Total comprehensive income for the year	-	(302,751)	-	-	3,329,681	3,026,930	167,280	3,194,210	
Transfer to PRC statutory reserve	-	-	-	306,304	(306,304)	-	-	-	
2019 interim dividend paid (note 12(a))	-	-	-	-	(184,465)	(184,465)	-	(184,465)	
2018 final dividend paid (note 12(b))	-	-	-	-	(337,514)	(337,514)	-	(337,514)	
Contributions from non-controlling interests	-	-	-	-	-	-	1,200,610	1,200,610	
Dividend attributable to non-controlling interests (note 29)	-	-	-	-	-	-	(127,500)	(127,500)	
Transactions with owners	-	-	-	-	(521,979)	(521,979)	1,073,110	551,131	
At 31 December 2019	5,579,100	(888,034)	30,075	1,370,803	13,453,383	19,545,327	1,967,981	21,513,308	

* The total of these equity accounts at the end of the reporting period represents "Reserves" in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 RMB'000	2018 RMB'000 (Re-presented)
Operating activities			
Profit before income tax		8,295,572	5,338,847
Adjustments for:			
Share of results of associates		(22,657)	(10,302)
Share of results of joint ventures		(290,534)	(224,013)
Gain on disposal of investment properties		(2,355)	(1,829)
Gain on disposal of property, plant and equipment		(391)	(49)
Gain on bargain purchase		(4)	–
Depreciation and amortization		80,375	46,151
Fair value gain on reclassification of inventories of properties to investment properties		(72,179)	–
Change in fair value of a derivative financial instrument		3,927	(2,098)
Write-off of property, plant and equipment		32	15
Interest income		(337,187)	(332,338)
Finance costs		33,843	77,665
Exchange difference		(57,673)	53,680
Operating cash flows before movements in working capital		7,630,769	4,945,729
Increase in inventories of properties		(25,358,768)	(13,979,635)
(Increase)/Decrease in other inventories		(2,638)	91
Increase in trade and other receivables, prepayments and deposits		(2,930,131)	(653,287)
Increase in contract assets		(34,217)	(8,044)
Increase in restricted cash and deposits		(3,721,563)	(610,595)
Increase in trade and other payables		2,371,773	1,242,205
Increase in contract liabilities		16,000,352	14,368,179
Cash (used in)/generated from operations		(6,044,423)	5,304,643
Income taxes paid		(3,353,963)	(2,281,704)
Net cash (used in)/from operating activities		(9,398,386)	3,022,939
Investing activities			
Purchase of property, plant and equipment	16	(95,805)	(62,186)
Acquisition of subsidiaries, net of cash acquired	42	(178,357)	–
Proceeds from disposal of investment properties	15(c)	15,420	34,492
Proceeds from disposal of property, plant and equipment		547	97
Interest received		386,060	283,465
Increase in amount due from an associate		(760)	(2,755)
Decrease in amount due from a joint venture		254,521	–
Increase in amounts due from non-controlling interests		(172,995)	(183,267)
Increase in amount due from a related company		(171,543)	–
Decrease/(Increase) in short-term time deposits with maturity beyond three months but within one year		3,132,459	(2,539,639)
Net cash from/(used in) investing activities		3,169,547	(2,469,793)

Consolidated Statement of Cash Flows (continued)

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 RMB'000	2018 RMB'000 (Re-presented)
Financing activities	43(b)		
New borrowings		13,115,462	9,783,961
Repayment of borrowings		(8,457,218)	(8,112,527)
Net proceeds from issue of guaranteed notes		–	3,189,059
Redemption of guaranteed notes	35	(2,719,792)	–
Advances from non-controlling interests		5,017,734	2,128,584
Repayments to non-controlling interests		(2,107,417)	(557,492)
Advances from associates		41,470	1,817
Repayments to associates		(981)	(26,070)
Advances from joint ventures		401,991	740,205
Repayments to joint ventures		(766,109)	(592,645)
Advances from related companies		–	3,364
Repayments to related companies		–	(3,763,792)
Share issue expenses	37	–	(38,928)
Proceeds from rights issue	37	–	3,767,588
Dividends paid	12	(521,979)	(172,982)
Contribution from non-controlling interests	43(a)	1,200,610	3,340
Payment of principal element of leases		(10,962)	–
Payment of interest element of leases		(1,132)	–
Payment of other interest		(1,322,298)	(1,133,472)
Net cash from financing activities		3,869,379	5,220,010
Net (decrease)/increase in cash and cash equivalents		(2,359,460)	5,773,156
Cash and cash equivalents at 1 January		19,058,980	12,987,232
Effect of foreign exchange rate changes on cash and cash equivalents		55,915	298,592
Cash and cash equivalents at 31 December		16,755,435	19,058,980
Analysis of balances of cash and cash equivalents			
Cash and bank balances as stated in the consolidated statement of financial position		16,755,435	22,221,637
Less: Short-term time deposits with maturity beyond three months but within one year	31(c)	–	(3,162,657)
Cash and cash equivalents at 31 December		16,755,435	19,058,980

Notes to the Financial Statements

1. GENERAL INFORMATION

China Overseas Grand Oceans Group Limited (the “Company”) is a limited liability company incorporated in the Hong Kong Special Administrative Region (“Hong Kong”), the People’s Republic of China (the “PRC”) and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The address of the Company’s registered office and principal place of business is Suites 701–702, 7/F., Three Pacific Place, 1 Queen’s Road East, Hong Kong.

The principal activities of the Company and its subsidiaries (collectively, the “Group”) mainly comprise property investment and development, property leasing and investment holding.

The Group’s business activities are principally carried out in certain regions in the PRC such as Ganzhou, Hefei, Huizhou, Jilin, Nanning, Nantong, Yangzhou and Yinchuan.

The Company is an associated company of China Overseas Land & Investment Limited (“COLI”). COLI is a company incorporated in Hong Kong with limited liability and its shares are listed on the Stock Exchange. COLI’s ultimate holding company is 中國建築集團有限公司 China State Construction Engineering Corporation* (“CSCEC”), an entity established in the PRC.

The financial statements for the year ended 31 December 2019 were approved and authorized for issue by the directors on 20 March 2020.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRS”)

2.1 Adoption of new or revised HKFRS — effective 1 January 2019

In the current year, the Group has applied for the first time the following new standards, amendments and interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which are relevant to and effective for the Group’s financial statements for the annual period beginning on 1 January 2019:

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRS 9	Prepayment Features and Negative Compensation
Annual Improvements to HKFRS 2015–2017 Cycle	Amendments to HKFRS 3 Business Combinations, HKFRS 11 Joint Arrangements, HKAS 12 Income Taxes and HKAS 23 Borrowing costs

The impact of the adoption of HKFRS 16 *Leases* (“HKFRS 16”) have been summarized below. The other new or revised HKFRS that are effective from 1 January 2019 did not have any significant impact on the Group’s accounting policies.

* English translation is for identification only

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRS”) (CONTINUED)

2.1 Adoption of new or revised HKFRS — effective 1 January 2019 (Continued)

HKFRS 16

HKFRS 16 brings significant changes in accounting treatment for lease accounting, primarily for accounting for lessees. It replaces HKAS 17 *Leases* (“HKAS 17”), HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease* (“HK(IFRIC)-Int 4”), HK(SIC)-Int 15 *Operating Leases — Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. From a lessee’s perspective, almost all leases are recognized in the statement of financial position as right-of-use assets and lease liabilities, with the narrow exception to this principle for leases which the underlying assets are of low-value or are determined as short-term leases. From a lessor’s perspective, the accounting treatment is substantially unchanged from HKAS 17.

Details of HKFRS 16 regarding its new definition of a lease, its impact on the Group’s accounting policies, the transition method adopted by the Group as allowed under HKFRS 16 and its impact on the Group’s consolidated financial statements are set out below.

(i) *The new definition of a lease*

Under HKFRS 16, a lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. A contract conveys the right to control the use of an identified asset for a period of time when the customer, throughout the period of use, has both: (a) the right to obtain substantially all of the economic benefits from use of the identified asset and (b) the right to direct the use of the identified asset.

For a contract that contains a lease component and one or more additional lease or non-lease components, a lessee shall allocate the consideration in the 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, unless the lessee apply the practical expedient which allows the lessee to elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

Notes to the Financial Statements (*continued*)

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRS”) (CONTINUED)

2.1 Adoption of new or revised HKFRS — effective 1 January 2019 (Continued)

HKFRS 16 (Continued)

(ii) *Accounting as a lessee*

Under HKAS 17, a lessee has to classify a lease as an operating lease or a finance lease based on the extent to which risks and rewards incidental to ownership of a lease asset lie with the lessor or the lessee. If a lease is determined as an operating lease, the lessee would recognize the lease payments under the operating lease as an expense over the lease term. The asset under the lease would not be recognized in the statement of financial position of the lessee.

Under HKFRS 16, all leases (irrespective of they are operating leases or finance leases) are required to be capitalized in the statement of financial position as right-of-use assets and lease liabilities, but HKFRS 16 provides accounting policy choices for an entity to choose not to capitalize (a) leases which are short-term leases and/or (b) leases for which the underlying asset is of low-value. The Group has elected not to recognize right-of-use assets and lease liabilities for low-value assets and leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

The Group recognized a right-of-use asset and a lease liability at the commencement date of a lease.

The new accounting policies for lessees under HKFRS 16 are set out in note 4.10A.

(iii) *Accounting as a lessor*

The Group has leased out its investment properties, the shopping mall and certain units of inventories of properties to a number of tenants. As the accounting under HKFRS 16 for a lessor is substantially unchanged from the requirements under HKAS 17, the adoption of HKFRS 16 does not have significant impact on these financial statements.

(iv) *Transition*

The Group has applied HKFRS 16 using the modified retrospective approach and recognized all the cumulative effect of initially applying HKFRS 16 as an adjustment to the opening balance of retained profits at the date of initial application, i.e. 1 January 2019. The comparative information presented in 2018 has not been restated and continues to be reported under HKAS 17 and related interpretations as allowed by the transition provision in HKFRS 16.

The Group has applied the transitional practical expedients to grandfather the previous assessment on leases. Accordingly, contracts that were previously identified as leases under HKAS 17 and HK(IFRIC)-Int 4 continue to be accounted for as leases under HKFRS 16 and HKFRS 16 is not applied to contracts that were not previously identified as containing a lease under HKAS 17 and HK(IFRIC)-Int 4.

The Group has recognized lease liabilities at the date of 1 January 2019 for leases previously classified as operating leases applying HKAS 17 and measured those lease liabilities at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate at 1 January 2019.

Notes to the Financial Statements (*continued*)

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRS”) (CONTINUED)

2.1 Adoption of new or revised HKFRS — effective 1 January 2019 (Continued)

HKFRS 16 (Continued)

(iv) *Transition (Continued)*

The Group has recognized all the right-of-use assets at 1 January 2019 for leases previously classified as operating leases under HKAS 17 at the amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to those leases recognized in the statement of financial position immediately before the date of initial recognition. For all these right-of-use assets, the Group has applied HKAS 36 *Impairment of Assets* at 1 January 2019 to assess if there was any impairment as on that date.

The Group has also applied the following practical expedients: (a) applied a single discount rate to a portfolio of leases with reasonably similar characteristics; and (b) applied the exemption of not to recognize right-of-use assets and lease liabilities for leases with term that will end within 12 months of the date of initial application, i.e. 1 January 2019 and accounted for those leases as short-term leases.

(v) *Impact of adoption of HKFRS 16*

The impact of transition to HKFRS 16 on the consolidated statement of financial position as of 31 December 2018 to that of 1 January 2019 is summarized as follows:

Consolidated statement of financial position as at 1 January 2019

	As previously reported RMB'000 (Re- presented*)	HKFRS 16 reclassification RMB'000 (note (a))	HKFRS 16 contract capitalization RMB'000 (note (b))	As restated RMB'000
Assets				
Right-of-use assets	–	272,604	39,356	311,960
Prepaid lease rental on land (non-current)	263,986	(263,986)	–	–
Trade and other receivables, prepayments and deposits	8,894,882	(625)	–	8,894,257
Prepaid lease rental on land (current)	7,993	(7,993)	–	–
Liabilities				
Lease liabilities (current)	–	–	17,309	17,309
Lease liabilities (non-current)	–	–	22,047	22,047

Notes to the Financial Statements (*continued*)

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS") (CONTINUED)

2.1 Adoption of new or revised HKFRS — effective 1 January 2019 (Continued)

HKFRS 16 (Continued)

(v) *Impact of adoption of HKFRS 16 (Continued)*

The following reconciliation explains how the operating lease commitments disclosed applying HKAS 17 as at 31 December 2018 could be reconciled to the lease liabilities at the date of initial application recognized in the consolidated statement of financial position as at 1 January 2019:

	RMB'000
Operating lease commitments as at 31 December 2018 (Re-presented*)	48,817
Less: Short-term leases and other leases for which lease terms end within 31 December 2019	(4,932)
	43,885
Less: Future interest expenses	(4,529)
Total lease liabilities as at 1 January 2019	39,356

The weighted average of the incremental borrowing rates applied to the lease liabilities recognized in the consolidated statement of financial position as at 1 January 2019 is 3.06%

* See note 3.3

Notes:

- (a) Up-front payments made by the Group for leasehold land and land use rights which are held for own use were previously classified as prepaid lease rental on land and were measured at cost less accumulated amortization and any impairment losses. Upon initial adoption of HKFRS 16 on 1 January 2019, the up-front payments amounting to RMB271,979,000 in aggregate were reclassified to right-of-use assets.
- (b) The Group has leased certain office premises, quarters and shopping mall, which were previously accounted for as operating leases under HKAS 17. The adoption of HKFRS 16 on 1 January 2019 resulted in the recognition of right-of-use assets of RMB39,356,000 and lease liabilities at the same amount.
- (c) Under HKFRS 16, the Group is required to account for leasehold properties as investment properties under HKAS 40 *Investment Property* ("HKAS 40") when these properties are held to earn rentals and/or for capital appreciation. The adoption of HKFRS 16 does not have significant impact on those right-of-use assets that meet the definition of investment properties and they would continue to be accounted for under HKAS 40 and would be carried at fair value.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRS”) (CONTINUED)

2.1 Adoption of new or revised HKFRS — effective 1 January 2019 (Continued)

HK(IFRIC)-Int 23 Uncertainty over Income Tax Treatments

The Interpretation supports the requirements of HKAS 12 *Income Taxes* by providing guidance over how to reflect the effects of uncertainty in accounting for income taxes. Under the Interpretation, the entity shall determine whether to consider each uncertain tax treatment separately or together based on which approach better predicts the resolution of the uncertainty. The entity shall also assume the tax authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If the entity determines it is probable that the tax authority will accept an uncertain tax treatment, then the entity should measure current and deferred tax in line with its tax filings. If the entity determines it is not probable, then the uncertainty in the determination of tax is reflected using either the “most likely amount” or the “expected value” approach, whichever better predicts the resolution of the uncertainty.

Amendments to HKFRS 9 Prepayment Features with Negative Compensation

The amendments clarify that prepayable financial assets with negative compensation can be measured at amortized cost or at fair value through other comprehensive income if specified conditions are met, instead of at fair value through profit or loss.

Amendments to HKAS 28 Long-term Interests in Associates and Joint Ventures

The amendment clarifies that HKFRS 9 applies to long-term interests in associates or joint ventures which form part of the net investment in the associates or joint ventures and stipulates that HKFRS 9 is applied to these long-term interests before the impairment losses guidance within HKAS 28.

Annual Improvements to HKFRS 2015–2017 Cycle

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include the followings:

Amendments to HKFRS 3 Business Combinations

Amendments to HKFRS 3 clarify that when a joint operator of a business obtains control over a joint operation, this is a business combination achieved in stages and the previously held equity interest should therefore be remeasured to its acquisition-date fair value.

Amendments to HKFRS 11 Joint Arrangements

Amendments to HKFRS 11 clarify that when a party that participates in, but does not have joint control of, a joint operation which is a business and subsequently obtains joint control of the joint operation, the previously held equity interest should not be remeasured to its acquisition-date fair value.

Amendments to HKAS 12 Income Taxes

Amendments to HKAS 12 clarify that all income tax consequences of dividends are recognized consistently with the transactions that generated the distributable profits, either in profit or loss, other comprehensive income or directly in equity.

Notes to the Financial Statements (*continued*)

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRS”) (CONTINUED)

2.1 Adoption of new or revised HKFRS — effective 1 January 2019 (Continued)

Annual Improvements to HKFRS 2015–2017 Cycle (Continued)

Amendments to HKAS 23 Borrowing Costs

Amendments to HKAS 23 clarify that a borrowing made specifically to obtain a qualifying asset which remains outstanding after the related qualifying asset is ready for its intended use or sale would become part of the funds an entity borrows generally and therefore included in the general pool.

2.2 New or revised HKFRS that have been issued but not yet effective

The following new or revised HKFRS, potentially relevant to the Group’s financial statements, have been issued, but are not yet effective and have not been early adopted by the Group.

Amendments to HKFRS 3	Definition of a Business ¹
Amendments to HKAS 1 and HKAS 8	Definition of Material ¹
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ²

¹ Effective for annual periods beginning on or after 1 January 2020

² The amendments were originally intended to be effective for periods beginning on or after 1 January 2016. The effective date has now been deferred or removed. Early application of the amendments continues to be permitted.

The directors of the Company anticipate that all of the relevant pronouncements will be adopted in the Group’s accounting policy for the first period beginning after the effective date of the pronouncement.

Amendments to HKFRS 3 Definition of a Business

The amendments clarify that a business must include, as a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs, together with providing extensive guidance on what is meant by a “substantive process”. Additionally, the amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs, whilst narrowing the definition of “outputs” and a “business” to focus on returns from selling goods and services to customers, rather than on cost reductions. An optional concentration test has also been added that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

Amendments to HKAS 1 and HKAS 8 Definition of Material

The amendments clarify the definition and explanation of “material”, aligning the definition across all HKFRS Standards and the Conceptual Framework, and incorporating supporting requirements in HKAS 1 into the definition.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRS”) (CONTINUED)

2.2 New or revised HKFRS that have been issued but not yet effective (Continued)

Amendments to HKFRS 9, HKAS 39 and HKFRS 7 Interest Rate Benchmark Reform

The amendments modify some specific hedge accounting requirements to provide relief from potential effects of the uncertainties caused by interest rate benchmark reform. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties.

Amendments to HKFRS 10 and HKAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments clarify the extent of gains or losses to be recognized when an entity sells or contributes assets to its associate or joint venture. When the transaction involves a business, the gain or loss is recognized in full. Conversely when the transaction involves assets that do not constitute a business, the gain or loss is recognized only to the extent of the unrelated investors’ interests in the joint venture or associate.

The above new or revised HKFRS that have been issued but not yet effective are unlikely to have material impact on the Group’s results and financial position upon application.

3. BASIS OF PREPARATION

3.1 Statement of compliance

The financial statements have been prepared in accordance with HKFRS which collective term includes individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the HKICPA and the provisions of the Hong Kong Companies Ordinance which concern the preparation of financial statements. In addition, the financial statements include the applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”).

Accounting estimates and assumptions have been used in preparing these financial statements. Although these estimates and assumptions are based on management’s best knowledge and judgment of current events and conditions, actual results may ultimately differ from those estimates and assumptions. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Group’s financial statements, are disclosed in note 5.

3.2 Basis of measurement

The financial statements have been prepared under the historical cost basis except for investment properties and certain financial instruments which are measured at fair value. The measurement bases are fully described in the accounting policies below.

All values are rounded to the nearest thousand except otherwise indicated.

Notes to the Financial Statements (*continued*)

3. BASIS OF PREPARATION (CONTINUED)

3.3 Functional and presentation currency

The functional currency of the Company is Hong Kong dollars ("HK\$"). The presentation currency of the consolidated financial statements in the prior financial periods was HK\$ and is changed to Renminbi ("RMB") in the current year.

The Group's business activities are mainly conducted in the PRC and the functional currency of those operating subsidiaries in the PRC is RMB. Having considered that most of the Group's transactions are denominated and settled in RMB and the change in the presentation currency could reduce the impact of any fluctuations in the exchange rate of HK\$ against RMB on the consolidated financial statements of the Group, which is not due to the operations and beyond the control of the Group, thus enabling the shareholders of the Company to have a more accurate picture of the Group's financial performance, the directors have decided to change the presentation currency from HK\$ to RMB for the preparation of the Group's consolidated financial statements.

The change in presentation currency of the consolidated financial statements has been accounted for in accordance with HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. The comparative figures in the consolidated statements of financial position as at 31 December, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year ended 31 December 2018 have been re-presented in RMB accordingly.

The following methodology was used to re-present the comparative figures including those included in note disclosures, which were originally reported in HK\$:

- (i) income and expenditure denominated in non-RMB currencies were translated at the average rates of exchange prevailing for the period;
- (ii) assets and liabilities denominated in non-RMB currencies were translated at the rates of exchange at the beginning and the end of the period;
- (iii) share capital and other reserves were translated at the applicable historical rates; and
- (iv) all resulting exchange differences were recognized in other comprehensive income.

The change in presentation currency mainly impacted the carrying amounts of translation reserve as at 31 December 2017 and 2018, changing it from HK\$373,279,000 (debit balance) and HK\$1,864,534,000 (debit balance) respectively to RMB218,722,000 (debit balance) and RMB585,283,000 (debit balance) respectively.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are summarized below. These policies have been consistently applied to all the years presented unless otherwise stated.

4.1 Business combination and basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries (see note 4.2 below) made up to 31 December each year. Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intercompany transactions, balances and unrealized gains on transactions within the Group are eliminated on consolidation. Unrealized losses resulting from intercompany transaction are also eliminated unless the transaction provides evidence of an impairment of the asset transferred, in which case they are recognized immediately in profit or loss.

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group in exchange for control of the acquiree. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. If the business combination is achieved in stages, the Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognized in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interests that represent present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by another HKFRS. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments, in which case the costs are deducted from equity.

Any contingent consideration to be transferred by the acquirer is recognized at acquisition-date fair value. Subsequent changes to the fair value of the contingent consideration are recognized against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent changes to contingent consideration classified as an asset or a liability are recognized in profit or loss.

Goodwill or bargain purchase arising on business combination is accounted for according to the policies in notes 4.5 and 4.6 respectively.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interest and the non-controlling interest are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

Notes to the Financial Statements (*continued*)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.1 Business combination and basis of consolidation (Continued)

Subsequent to acquisition, the carrying amount of non-controlling interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus such non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to such non-controlling interests even if this results in those non-controlling interests having a deficit balance.

When the Group loses control of a subsidiary, the profit or loss on disposal 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 previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest, and also the cumulative translation differences recorded in equity. Amounts previously recognized in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

4.2 Subsidiaries

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present:

- power over the investee;
- exposure, or rights, to variable returns from the investee; and
- the ability to use its power to affect those variable returns.

Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

4.3 Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor a joint arrangement. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not control or joint control over those policies.

Associates are accounted for using the equity method whereby they are initially recognized at cost and thereafter, their carrying amount are adjusted for the Group's share of the post-acquisition change in the associates' net assets except that losses in excess of the Group's interest in the associate are not recognized unless there is an obligation to make good those losses.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.3 Associates (Continued)

Profits and losses arising on transactions between the Group and its associates are recognized only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated against the carrying value of the associate. Where unrealized losses provide evidence of impairment of the asset transferred, they are recognized immediately in profit or loss.

Any premium paid for an associate above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalized and included in the carrying amount of the associate. Where there is objective evidence that the investment in an associate has been impaired, the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

4.4 Joint arrangements

The Group is a party to a joint arrangement where there is a contractual arrangement that confers joint control over the relevant activities of the arrangement to the Group and at least one other party. Joint control is assessed under the same principles as control over subsidiaries.

The Group classifies its interests in joint arrangements as either:

- joint ventures: where the Group has rights to only the net assets of the joint arrangement; or
- joint operations: where the Group has both the rights to assets and obligations for the liabilities of the joint arrangement.

In assessing the classification of interests in joint arrangements, the Group considers:

- the structure of the joint arrangement;
- the legal form of joint arrangements structured through a separate vehicle;
- the contractual terms of the joint arrangement agreement; and
- any other facts and circumstances (including any other contractual arrangements).

Joint ventures are accounted for using the equity method whereby they are initially recognized at cost and thereafter, their carrying amount are adjusted for the Group's share of the post-acquisition change in the joint ventures' net assets except that losses in excess of the Group's interest in the joint venture are not recognized unless there is an obligation to make good those losses.

Notes to the Financial Statements (*continued*)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.4 Joint arrangements (Continued)

Profits and losses arising on transactions between the Group and its joint venture are recognized only to the extent of unrelated investors' interests in the joint venture. The investor's share in the joint venture's profits and losses resulting from these transactions is eliminated against the carrying value of the joint venture. Where unrealized losses provide evidence of impairment of the asset transferred, they are recognized immediately in profit or loss.

Any premium paid for an investment in a joint venture above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalized and included in the carrying amount of the investment in joint venture. Where there is objective evidence that the investment in a joint venture has been impaired, the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

Joint operations are accounted for by recognizing the Group's share of assets, liabilities, revenue and expenses in accordance with its contractually conferred rights and obligations.

4.5 Goodwill

Goodwill arising from the acquisition of subsidiaries, associates and joint ventures represents the excess of the aggregate of the consideration transferred, the amount recognized for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree, over the Group's interest in the fair value of the identifiable assets acquired and liabilities assumed including contingent liabilities as at the date of acquisition.

Goodwill arising on acquisition is initially recognized in the consolidated statement of financial position as an asset at cost and subsequently measured at cost less any accumulated impairment losses. In case of associates and joint ventures, goodwill is included in the carrying amount of the interests in associates and joint ventures rather than recognized as a separate asset in the consolidated statement of financial position.

Goodwill is reviewed for impairment annually at the end of the reporting period or more frequently if events or changes in circumstances indicate that the carrying value of goodwill may be impaired (note 4.11). Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

4.6 Bargain purchases in business combinations

Any excess of the Group's interest in the fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the aggregate of the consideration transferred, the amount recognized for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree is recognized immediately in profit or loss.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.7 Investment properties

Investment properties include leasehold land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purpose. Investment properties also include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment properties. Leasehold land which meets the definition of investment property are accounted for as investment properties.

Investment property is initially stated at cost, including directly attributable costs, and subsequently stated at fair value. Any gain or loss resulting from either a change in the fair value or disposal of an investment property is immediately recognized in profit or loss. Rental income from investment properties is accounted for as described in note 4.16(iv).

For a transfer from investment property carried at fair value to owner-occupied property, the property's deemed cost for subsequent accounting is its fair value at the date of change in use. For property occupied by the Group as an owner-occupied property which becomes an investment property, the Group accounts for such property in accordance with the policy of property, plant and equipment (note 4.8) up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is dealt with in assets revaluation reserve. On disposal of the property, the assets revaluation reserve is transferred to retained profits as a movement in reserves. For a transfer from inventories to investment properties, any difference between the fair value of the property at that date and its previous carrying amount is recognized in profit or loss.

4.8 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses (note 4.11).

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to the working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where it can be demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalized as an additional cost of that asset or as a replacement.

Notes to the Financial Statements (*continued*)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.8 Property, plant and equipment (Continued)

Depreciation is provided to write off the cost of each item of property, plant and equipment less its estimated residual value, if applicable, over its estimated useful life on a straight-line basis at the following rates per annum:

<i>Category of property, plant and equipment</i>	<i>Annual rates</i>
Buildings situated on leasehold land	Over the shorter of the remaining title to the land or estimated useful life of 20 to 50 years
Leasehold improvements	Over the shorter of the remaining lease term or estimated useful life of 5 years
Furniture, fixtures and office equipment	10% to 33.33%
Motor vehicles	20% to 25%

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period.

Construction in progress is stated at cost less impairment losses. Cost comprises direct costs of construction as well as borrowing costs capitalized during the periods of construction and installation. Capitalization of these costs ceases and the construction in progress is transferred to the appropriate class of property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided for in respect of construction in progress until it is completed and ready for its intended use.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising from the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the item and is recognized in profit or loss.

4.9 Intangible assets (Other than goodwill)

Intangible assets are recognized initially at cost. After initial recognition, intangible assets with finite useful life are amortized over their estimated useful lives and assessed for impairment (note 4.11) whenever there is an indication that the intangible asset may be impaired. Intangible assets with indefinite useful life are not amortized but reviewed for impairment at least annually (note 4.11) either individually or at the cash-generating unit level. The useful life of an intangible asset with indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Shopping mall operating right

Shopping mall operating right represents the right of operating a shopping mall which is carried at cost less accumulated amortization and any impairment losses. Amortization is provided on a straight-line basis over the period of operation of 30 years.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.10 Leasing

A. **Policies applicable from 1 January 2019**

The Group as a lessee

All leases (irrespective of they are operating leases or finance leases) are required to be capitalized in the statement of financial position as right-of-use assets and lease liabilities, but accounting policy choices exist for an entity to choose not to capitalize (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognize right-of-use assets and lease liabilities for low-value assets and leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

The Group accounts for leasehold land and buildings that are held to earn rentals and/or for capital appreciation under HKAS 40 and those assets are carried at fair value (note 4.7). The Group accounts for the building portion of leasehold land and buildings which the Group has ownership interests and are held for own use under HKAS 16 and those assets are carried at cost less depreciation (note 4.8), whereas the land portion of those leasehold land and buildings is classified as right-of-use assets and are stated at cost less accumulated depreciation and any impairment losses. Other than the above, the Group has also leased some properties under tenancy agreements and those leases are also classified as right-of-use assets and are measured according to the policies as set out below. Right-of-use assets related to interests in leasehold land where the interest in the land is held as inventory are carried at the lower of cost and net realizable value (note 4.13).

Right-of-use asset

Right-of-use asset is recognized at cost and comprises: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. Except for right-of-use asset that meets the definition of an investment property to which the Group applies revaluation model, the Group measures the right-of-use assets applying a cost model. Under the cost model, the Group measures the right-of-use assets at cost less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. For right-of-use asset that meets the definition of an investment property, they are carried at fair value.

Notes to the Financial Statements (*continued*)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.10 Leasing (Continued)

A. **Policies applicable from 1 January 2019 (Continued)**

The Group as a lessee (Continued)

Right-of-use asset (Continued)

Right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis at the following rate per annum:

<i>Category of right-of-use assets</i>	<i>Useful lives</i>
Land use rights of properties with ownership interests held for own use	Over the lease term
Other properties leased for own use	Over the shorter of the remaining lease term or estimated useful life

Lease liability

Lease liability is recognized at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the lessee's incremental borrowing rate.

The following payments for use of the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable; (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, the Group measures the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and (iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in substance fixed lease payments or a change in assessment to purchase the underlying asset.

The Group as a lessor

Rental income from operating lease 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 recognized as an expense on the straight-line basis over the lease term.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.10 Leasing (Continued)

B. Policies applied until 31 December 2018

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, rental receivable under the operating leases are credited to profit or loss on a straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases, net of any incentives received or receivable, are charged to profit or loss on a straight-line basis over the lease terms.

Prepaid lease rental on land are up-front prepayments made for the leasehold land and land use rights which are stated at cost less accumulated amortization and any impairment losses. Amortization is calculated on a straight-line basis over the lease term. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in cost of land and buildings as a finance lease in property, plant and equipment.

When the Group's interests in leasehold land and buildings are in the course of development for sale in ordinary course of business, the leasehold land component is included in properties under development or properties held for sale.

4.11 Impairment of non-financial assets

Goodwill, other intangible assets, property, plant and equipment, prepaid lease rental on land, right-of-use assets and interests in subsidiaries, associates and joint ventures are subject to impairment testing. Goodwill and other intangible assets with indefinite useful life or those not yet available for use are tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other assets are tested for impairment whenever there are indications that the assets' carrying amount may not be recoverable.

For the amount by which an asset's carrying amount exceeds its recoverable amount, an impairment loss is recognized as an expense immediately unless the relevant asset is carried at a revalued amount under another HKFRS, in which case the impairment loss is treated as a revaluation decrease under that HKFRS. Recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, 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 assessment of the time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill in particular is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which the goodwill is monitored for internal management purpose.

Notes to the Financial Statements (*continued*)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.11 Impairment of non-financial assets (Continued)

Impairment losses recognized for cash-generating units to which goodwill has been allocated are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit, except that the carrying value of an asset will not be reduced below its individual fair value less cost to sell, or value-in-use, if determinable.

An impairment loss on goodwill is not reversed in subsequent periods including impairment losses recognized in an interim period. In respect of other assets, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount but only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined (net of depreciation or amortization) had no impairment loss been recognized.

A reversal of such impairment is credited to profit or loss in the period in which it arises unless that asset is carried at revalued amount, in which case the reversal of impairment loss is accounted for in accordance with the relevant accounting policy for the revalued amount.

4.12 Financial instruments

(i) **Financial assets**

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

All regular way purchases and sales of financial assets are recognized on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

Financial assets with embedded derivatives are considered at their entirety when determining whether their cash flows are solely payments of principal and interest on the principal outstanding.

The Group classifies its financial assets in the following measurement categories:

- Financial assets at amortized cost;
- Financial assets at fair value through other comprehensive income; and
- Financial assets at fair value through profit or loss.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.12 Financial instruments (Continued)

(i) **Financial assets (Continued)**

The classification is generally based on two criteria:

- the business model under which the financial asset is managed; and
- the contractual cash flow characteristics of the financial asset.

The subsequent measurement of financial assets depends on their classification as follows:

Debt instruments

There are three measurement categories into which the Group classifies its debt instruments:

- **Amortized cost**
Financial assets that are held within a business model whose objective is to hold the financial assets in order to collect contractual cash flows and the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding are measured at amortized cost using the effective interest method. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss.
- **Fair value through other comprehensive income**
Financial assets that are held within a business model whose objective is to be achieved by both collecting contractual cash flows and selling the financial assets and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding are measured at fair value through other comprehensive income. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are recycled to profit or loss.
- **Fair value through profit or loss**
Financial assets that do not meet the criteria for amortized cost or financial assets at fair value through other comprehensive income are measured at fair value through profit or loss. Changes in fair value and interest income are recognized in profit or loss.

Notes to the Financial Statements (*continued*)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.12 Financial instruments (Continued)

(i) **Financial assets (Continued)**

Equity instruments

- Fair value through profit or loss
Equity investments at fair value through profit or loss are subsequently measured at fair value. Changes in fair value, dividend income and interest income are recognized in profit or loss.

- Fair value through other comprehensive income
For equity investment which is not held for trading purposes and on initial recognition of the investment the Group makes an irrevocable election to designate the investment at fair value through other comprehensive income, they are subsequently measured at fair value and changes in fair value are recognized in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Dividend income is recognized in profit or loss unless the dividend income clearly represents a recovery of part of the cost of the investments. Other net gains and losses are recognized in other comprehensive income and are not reclassified to profit or loss. On disposal of the investment, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained profits. Equity instruments at fair value through other comprehensive income are not subject to impairment assessment.

(ii) **Impairment loss on financial assets**

The Group recognizes an allowance for expected credit losses ("ECL") on debt instruments carried at amortized cost (including trade and other receivables, amounts due from associate, joint venture, related parties and non-controlling interest, restricted cash and deposits and cash and bank balances) and debt instruments measured at fair value through other comprehensive income.

ECL are probability-weighted estimate of credit losses. Credit losses are measured at the difference between the contractual cash flows due in accordance with the contract and the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancement that are integral to the contract terms.

The ECL are measured on either of the following bases:

- 12-month ECL: these are the ECL that result from possible default events within 12 months after the reporting date; and

- lifetime ECL: these are the ECL that result from all possible default events over the expected life of a financial instrument.

The maximum period considered when estimating ECL is the maximum contractual period over which the Group is exposed to credit risk.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.12 Financial instruments (Continued)

(ii) **Impairment loss on financial assets (Continued)**

For trade receivables and contract assets, the Group applies the simplified approach in measuring ECL, that is to recognize a loss allowance based on lifetime ECL at each reporting date. The Group estimates the loss allowance using a provision matrix which is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other debt financial assets, the Group applies the general approach to measure ECL, that is to recognize a loss allowance based on 12-month ECL. However, when there has been a significant increase in credit risk since initial recognition, the loss allowance will be based on lifetime ECL.

The Group assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. For this purpose, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assesses whether the credit risk on an exposure has increased significantly on an individual or collective basis. For the purposes of a collective evaluation of impairment, financial instruments are grouped on the basis of shared credit risk characteristics, such as past due status and credit risk rating, where applicable.

The Group recognizes an impairment loss or reversal in profit or loss for financial instruments carried at amortized cost by adjusting their carrying amount through the use of a loss allowance account. The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. Subsequent recoveries of an asset that was previously written off are recognized as a reversal of impairment in profit or loss in the period in which the recovery occurs.

For investments in debt instruments that are measured at fair value through other comprehensive income, the loss allowance is recognized in other comprehensive income and accumulated in the fair value reserve without reducing the carrying amounts of those debt instruments.

Interest income on credit-impaired financial assets is calculated based on the amortized cost (i.e. the gross carrying amount less loss allowance) of the financial assets. For non credit-impaired financial assets, interest income is calculated based on the gross carrying amount.

Notes to the Financial Statements (*continued*)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.12 Financial instruments (Continued)

(iii) **Financial liabilities**

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at fair value through profit or loss are initially measured at fair value and financial liabilities at amortized cost are initially measured at fair value, net of directly attributable costs incurred.

A financial liability is classified as (i) financial liabilities at fair value through profit or loss; or (ii) financial liabilities at amortized cost.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognized in profit or loss.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognizing gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognized in profit or loss in the period in which they arise, except for the gains and losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to profit or loss. The net fair value gain or loss recognized in profit or loss does not include any interest charged on these financial liabilities.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.12 Financial instruments (Continued)

(iii) **Financial liabilities (Continued)**

Financial liabilities at amortized cost

Financial liabilities at amortized cost including trade payables, other payables and accruals, amounts due to associates, joint ventures, other related parties and non-controlling interests, lease liabilities, borrowings and guaranteed notes payable are subsequently measured at amortized cost, using the effective interest method. The related interest expense is recognized in accordance with the Group's accounting policy for borrowing costs (note 4.23).

Gains or losses are recognized in profit or loss when the liabilities are derecognized as well as through the amortization process.

(iv) **Effective interest method**

The effective interest method is a method of calculating the amortized cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(v) **Equity instruments**

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(vi) **Financial guarantee contracts**

A financial guarantee contract is a contract that requires the issuer (or guarantor) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognized initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the loss allowance, being the ECL provision measured in accordance with principles of the accounting policy set out in 4.12(ii); and (ii) the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with the principles of HKFRS 15 *Revenue from Contracts with Customers* ("HKFRS 15").

Notes to the Financial Statements (*continued*)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.12 Financial instruments (Continued)

(vi) **Financial guarantee contracts (Continued)**

The Group monitors the risk that the specified debtor will default on the contract and recognizes a provision when ECL on the financial guarantees are determined to be higher than the carrying amount of the guarantees. To determine ECL, the Group considers changes in the risk of default of the specified debtor since the issuance of the guarantee. A 12-month ECL is measured unless the risk that the specified debtor will default has increased significantly since the guarantee is issued, in which case a lifetime ECL is measured. As the Group is required to make payments only in the event of a default by the specified debtor in accordance with the terms of the instrument that is guaranteed, ECL is estimated based on the expected payments to reimburse the holder for a credit loss that it incurs less any amount that the Group expects to receive from the holder of the guarantee, the specified debtor or any other party. The amount is then discounted using the current risk-free rate adjusted for risks specific to the cash flows.

(vii) **Derecognition**

The Group derecognizes a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKFRS 9.

Financial liabilities are derecognized when the obligation specified in the relevant contract is discharged, cancelled or expires.

Where the Group issues its own equity instruments to a creditor to settle a financial liability in whole or in part as a result of renegotiating the terms of that liability, the equity instruments issued are the consideration paid and are recognized initially and measured at their fair value on the date the financial liability or part thereof is extinguished. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments are measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability or part thereof extinguished and the consideration paid is recognized in profit or loss for the year.

4.13 Inventories of properties

Inventories of properties comprise properties under development and completed properties held for sale. Properties under development are investments in land and buildings on which construction work has not been completed and which, upon completion, management intends to hold for sale purposes. Inventories of properties are stated at the lower of cost and net realizable value. Net realizable value is determined on the basis of anticipated sales proceeds less estimated cost to completion and estimated selling expenses. The costs of inventories of properties consist of interests in leasehold land (note 4.10), development expenditures including construction costs, borrowing costs capitalized (note 4.23) and other direct costs attributable to the development of such properties.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.14 Other inventories

Other inventories are stated at the lower of cost, computed using weighted average method, and net realizable value. Cost comprises all costs of purchases, cost of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

4.15 Cash and cash equivalents

Cash and cash equivalents include cash on hand, demand deposits with banks and short-term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. For the presentation purpose of the consolidated statement of cash flows, cash and cash equivalents include bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

4.16 Recognition of revenue and other income

Income is classified by the Group when it arises from the sale of goods, the provision of services or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

Revenue from contracts with customers is recognized when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services, excluding those amounts collected on behalf of third parties. Revenue excludes value-added tax or other sales taxes and is after deduction of any trade discounts.

Depending on the terms of the contract and the laws that apply to the contract, control of the goods or service may be transferred over time or at a point in time. Control of the goods or service is transferred over time if:

- the customers 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.

If control of the goods or services transfers over time, revenue is recognized over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognized at a point in time when the customer obtains control of the goods or service.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.16 Recognition of revenue and other income (Continued)

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amounts receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognized under that contract includes the interest expense accreted on the contract liability under the effective interest method. For contracts where the period between the payment and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

(i) **Sales of properties**

The Group determines whether the properties have no alternative use to the Group and whether the Group has an enforceable right to payment from the customer for performance completed to date, taking into account the terms of the contract, the Group's business practice and the legal and regulatory environment where the Group's property development activities operate.

When the property unit has no alternative use to the Group and the Group has an enforceable right to payment from the customer for performance completed to date, control over the property is regarded as transferred over time. In other cases, control over the property is regarded as transferred at a point in time.

If control of the property is transferred over time, revenue is recognized over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognized at a point in time when the customer obtains control of the asset. The progress toward complete satisfaction of the performance obligation is measured using input method, which is determined by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract.

If control of the property is transferred at a point in time, revenue is recognized when the customer obtains the physical possession or the legal title of the completed property and the Group has present right to payment and the collection of the consideration is probable.

(ii) **Hotel operation and other ancillary services**

Service fee income in relation to hotel operation and other ancillary services is recognized when the relevant services are provided to the customers.

(iii) **Other services income**

Service fee income is recognized when the relevant services are provided to the customers.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.16 Recognition of revenue and other income (Continued)

(iv) **Other sources of income**

- Rental income under operating leases is recognized on a straight-line basis over the term of the relevant lease.

- Interest income is accrued on a time basis using the effective interest rate method by applying applicable interest rate on (i) the amortized cost (i.e. gross carrying amount less loss allowance for credit-impaired financial assets; or (ii) the gross carrying amount for non credit-impaired financial assets.

4.17 Contract costs, contract assets and contract liabilities

Contract costs

Contract costs are either the incremental costs of obtaining a contract with a customer or the costs to fulfil a contract with a customer which are not capitalized as inventories or property, plant and equipment.

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. Incremental costs of obtaining a contract are capitalized when incurred if the costs relate to revenue which will be recognized in a future reporting period and the costs are expected to be recovered. Other costs of obtaining a contract are expensed when incurred.

Costs to fulfil a contract are capitalized if the costs relate directly to an existing contract or to a specifically identifiable anticipated contract; generate or enhance resources that will be used to provide goods or services in the future; and are expected to be recovered. Costs that relate directly to an existing contract or to a specifically identifiable anticipated contract may include direct labour, direct materials, allocations of costs, costs that are explicitly chargeable to the customer and other costs that are incurred only because the Group entered into the contract (for example, payments to subcontractors). Other costs of fulfilling a contract, which are not capitalized as inventories, or property, plant and equipment, are expensed as incurred.

Capitalized contract costs are stated at cost less accumulated amortization and impairment losses. Impairment losses are recognized to the extent that the carrying amount of the contract cost asset exceeds the net of (i) remaining amount of consideration that the Group expects to receive in exchange for the goods or services to which the asset relates, less (ii) any costs that relate directly to providing those goods or services that have not yet been recognized as expenses.

Amortization of capitalized contract costs is charged to profit or loss on a systematic basis that is consistent with the transfer to the customer of goods or services to which the costs relate. The accounting policy for revenue recognition is set out in note 4.16.

Notes to the Financial Statements (*continued*)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.17 Contract costs, contract assets and contract liabilities (Continued)

Contract assets and contract liabilities

A contract asset is recognized when the Group recognizes revenue (see note 4.16) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for ECL in accordance with the policy set out in note 4.12(ii). Loss allowance for contract assets is measured at an amount equal to lifetime ECL. Contract assets are reclassified to receivable when the right to the consideration has become unconditional (note 4.18).

A contract liability is recognized when the customer pays consideration before the Group recognizes the related revenue (see note 4.16). A contract liability would also be recognized if the Group has an unconditional right to receive consideration before the Group recognizes the related revenue. In such cases, a corresponding receivable would also be recognized.

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

4.18 Trade and other receivables

A receivable is recognized when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognized before the Group has an unconditional right to receive consideration, the amount is presented as contract assets (see note 4.17). Receivables are stated as amortized cost using the effective interest method less allowance for credit losses (see note 4.12(ii)).

4.19 Trade and other payables

Trade and other payables are initially recognized at fair value. Except for financial guarantee liabilities measured in accordance with notes 4.12(vi), trade and other payables are subsequently stated at amortized cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

Retention monies represent amounts of progress billings which are payable to contractors/subcontractors and are due for settlement at the time specified in the contracts. They are classified as current liabilities as the Group expects to settle them within its normal operating cycle.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.20 Foreign currencies

Transactions entered into by group entities in currencies other than the currency of the primary economic environment in which they operate (the “functional currency”) are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. 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 translation of monetary items, are recognized in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognized in other comprehensive income, in which case, the exchange differences are also recognized in other comprehensive income.

On consolidation, income and expense items of group entities that have a functional currency different from the Group’s presentation currency (i.e. RMB) are translated into the presentation currency at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of those group entities are translated at the rate ruling at the end of reporting period. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity as translation reserve (attributed to non-controlling interests as appropriate). Exchange differences recognized in profit or loss of group entities’ separate financial statements on the translation of long-term monetary items forming part of the Group’s net investment in the foreign operation concerned are reclassified to other comprehensive income and accumulated in equity as translation reserve.

On disposal of a foreign operation, the cumulative exchange differences recognized in the translation reserve relating to that operation up to the date of disposal are reclassified to profit or loss as part of the profit or loss on disposal.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of reporting period. Exchange differences arising are recognized in the translation reserve.

Notes to the Financial Statements (*continued*)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.21 Income tax

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognized assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is realized or settled and that have been enacted or substantively enacted at the end of the reporting period.

An exception to the general requirement on determining the appropriate tax rate used in measuring deferred tax amount is when an investment property is carried at fair value under HKAS 40. Unless the presumption is rebutted, the deferred tax amounts on these investment properties are measured using the tax rates that would apply on sale of these investment properties at their carrying amounts at the end of the reporting period. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all the economic benefits embodied in the property over time, rather than through sale.

When different tax rates apply to different levels of taxable income, deferred tax assets and liabilities are measured using the average rates that are expected to apply to the taxable profit or tax loss of the periods in which the temporary differences are expected to reverse. The determination of the average tax rates requires an estimation of (i) when the existing temporary differences will reverse and (ii) the amount of taxable income in those years. The estimate of future taxable income includes income or loss excluding reversals of temporary differences; and reversals of existing temporary differences.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries, associates and 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.

Income taxes are recognized in profit or loss except when they relate to items recognized in other comprehensive income in which case the taxes are also recognized in other comprehensive income or when they relate to items recognized directly in equity in which case the taxes are also recognized directly in equity.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.22 Employee benefits

Short-term employee benefits

Short term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Short-term employee benefits are recognized in the year when the employees render the related service.

Defined contribution retirement plan

Contributions to defined contribution retirement plans are recognized as an expense in profit or loss when the services are rendered by the employees.

Termination benefits

Termination benefits are recognized on the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognizes restructuring costs involving the payment of termination benefits.

4.23 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 be ready for their intended use or sale, are capitalized as part of the cost of those assets. The capitalization of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalized. Other borrowing costs are recognized as an expense in the period in which they are incurred.

Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds.

4.24 Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within equity, until they have been approved by the shareholders in a general meeting. When these dividends are approved and declared, they are recognized as a liability. Interim dividends are simultaneously proposed and declared and consequently, are recognized immediately as a liability when they are proposed and declared.

4.25 Provisions and contingent liabilities

Provision is recognized when the Group has a present obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. When the effect of discounting is material, provision is stated at the present value of the expenditure expected to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss. All provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future uncertain events not wholly within the control of the Group, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Notes to the Financial Statements (*continued*)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.26 Related parties

- (a) A person or a close member of that person's family is related to the Group if that person:
- (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of key management personnel of the Group or the Company's parent.
- (b) An entity is related to the Group if any of the following conditions applies:
- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third party and the other party is an associate of the third party.
 - (v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

- (a) that person's children and spouse or domestic partner;
- (b) children of that person's spouse or domestic partner; and
- (c) dependents of that person or that person's spouse or domestic partner.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.27 Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the chief operating decision-maker (i.e. the most senior executive management) for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations. Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

5. CRITICAL ACCOUNTING JUDGMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, 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 ongoing 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.

5.1 Key sources of estimation uncertainty

In addition to information disclosed elsewhere in the financial statements, key sources of estimation uncertainty that have a significant risk of resulting a material adjustment to the carrying amounts of assets and liabilities within next financial year are as follows:

(a) *Fair value of investment properties*

As disclosed in note 15, the fair values of the investment properties as at 31 December 2019 were estimated by the directors of the Company with reference to the property valuation as at 31 December 2019 conducted by independent professional valuers. The valuation was based on certain assumptions which are subject to uncertainty and might materially differ from the actual results. In making the estimates, the Group considers information from current prices in an active market for similar properties and uses assumptions that are mainly based on market conditions existing at the end of the reporting period.

5. CRITICAL ACCOUNTING JUDGMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

5.1 Key sources of estimation uncertainty (Continued)

(b) Net realizable value of inventories of properties

Include in the consolidated statement of financial position at 31 December 2019 is inventories of properties with an aggregate carrying amount of approximately RMB86,397,320,000 (2018: RMB59,303,130,000), which are stated at lower of cost and net realizable value. Management determines the net realizable value of the underlying properties which involves, inter-alia, considerable amount of estimation based on analysis of current market price of properties of a comparable quality and location, and for properties under development, estimations of construction costs to be incurred to complete the development based on existing asset structure, contractor fee and construction material price lists and a forecast of future sales taking into account market and economic factors and government measures. If the actual net realizable values of the underlying properties are less than the previous estimations as a result of change in market condition, government measures and policies and/or significant variation in the budgeted development cost, allowance for inventories of properties may result.

(c) Loss allowance for financial assets

The measurement of impairment losses across all categories of financial assets requires judgment, in particular, the assessment of a significant increase in credit risk and credit-impaired financial assets as well as the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

At each reporting date, the Company assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The Group considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and also, forward-looking analysis.

Details of the key assumptions and inputs used are set out in note 51.3.

(d) Estimates of current tax and deferred tax

The Group is subject to taxation in various jurisdictions. Significant judgment is required in determining the amount of the provision for taxation and the timing of payment of the related taxation, particularly for PRC land appreciation tax ("LAT"), and implementation of these taxes varies amongst various PRC cities. The Group has not finalized its LAT calculation and payments with certain local tax authorities in the PRC. Accordingly, significant estimation is required in determining the amount of the land appreciation and its related LAT. The Group recognized income tax and LAT based on management's best estimates according to their understanding of the tax rules. The final tax outcome could be different from the amounts that were initially recorded, and these differences will impact the tax expense in the period in which the tax calculations are finalized with the local tax authorities.

5. CRITICAL ACCOUNTING JUDGMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

5.2 Critical judgments in applying accounting policies

(a) Recognition of revenue from sales of properties

Revenue from sales of properties held for sale is recognized over time when the property unit does not have alternative use to the Group and the Group has an enforceable right to payment from the customer for performance completed to date; and in other cases, revenue from sale of properties is recognized at a point in time when the customer obtains control over the property.

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 customer and thus the property unit does not have an alternative use to the Group. However, whether the Group has an enforceable right to payment from the customers for performance completed to date depends on the terms of sales contract and the interpretation of the applicable laws that apply to the contract. Such determination requires significant judgment. Management uses judgment, with reference to legal advice, to classify the sales contracts into those with enforceable right to payment and those without the right.

For those properties with control being transferred over time, the Group recognizes revenue over time based on the progress towards complete satisfaction of performance obligation at the end of the reporting period using input method, which is determined with reference to the contract costs incurred to date as a percentage of total estimated costs for each contract. The Group estimates the development cost of each project based on the development plan as well as contractor fee and construction material price lists, taking into account economic factors. The Group allocates the development cost of the property project to each property unit based on types of properties, gross and saleable floor area and other relevant factors.

Significant judgment and estimations are required in determining the estimated development costs and assessing the progress towards complete satisfaction of the performance obligation at the end of the reporting period. Estimated development costs are supported by cost budgets which were prepared by management on the basis of quotations provided by contractors/subcontractors/suppliers as well as from past experiences. The Group has set up policies and procedures in relation to cost budgeting and progress assessment. Management reviews the estimated development costs, costs incurred to date and costs to be incurred as well as the development progress regularly and when necessary, revises the estimated development cost. Notwithstanding that management regularly reviews and revises cost budgets when the construction progresses, actual development costs and gross profit margin may be higher or lower than the estimates and that will affect the revenue and gross profit recognized in the financial statements.

Notes to the Financial Statements (continued)

5. CRITICAL ACCOUNTING JUDGMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

5.2 Critical judgments in applying accounting policies (Continued)

(b) Joint arrangement

As at 31 December 2019, the Group holds certain percentage of the registered capital/paid up capital and voting rights of certain joint arrangements. The contractual arrangements confer joint control over the relevant activities of the joint arrangements to the Group and the other venturers. In addition, the joint arrangements are structured as limited companies and provide the Group and the other venturers to the arrangements with rights to the net assets of the limited companies under the arrangements. Therefore, based on the judgment of the management, these arrangements are classified as joint ventures. Further details of the Group's joint arrangements are set out in note 20.

6. REVENUE

The principal activities of the Group are disclosed in note 1. Revenue derived from the Group's principal activities comprises of the followings:

	2019 RMB'000	2018 RMB'000 (Re-presented)
Revenue from contracts with customers within the scope of HKFRS 15		
— Sales of properties	28,317,217	21,274,471
— Hotel and other services income	81,108	62,183
	28,398,325	21,336,654
Revenue from other sources		
— Property rental income	192,558	188,014
Total revenue	28,590,883	21,524,668

The aggregate amount of transaction price allocated to the remaining performance obligations under the Group's outstanding contracts as at 31 December 2019 is RMB59,740,539,000 (2018: RMB39,988,555,000). This amount represents revenue expected to be recognized in future from the pre-sale contracts for properties under development entered into by the customers with the Group. The Group will recognize the expected revenue in future when or as the construction work of the properties is completed or when the properties are assigned to the customers, where appropriate, which is expected to occur over the next 12 to 36 months.

The Group has applied the practical expedient under HKFRS 15 to contracts in relation to hotel operations and other ancillary services such that the above information does not include information about revenue that the Group will be entitled to when it satisfies the remaining performance obligations as in general, the contracts in relation to hotel operation and other ancillary services have an original expected duration of one year or less.

7. SEGMENT INFORMATION

The operating segments are reported in a manner consistent with the way in which information is reported internally to the Group's most senior management for the purposes of resources allocation and assessment of segment performance. The Group has identified two reportable segments and one other segment for its operating segments as follows:

Property investment and development	—	This segment constructs residential and commercial properties in the PRC. Part of the business is carried out through associates and joint ventures.
Property leasing	—	This segment mainly holds commercial units located in the PRC for leasing to generate rental income and gain from appreciation in the properties' values in the long-term. Part of the business is carried out through a joint venture.
Other segment	—	This segment mainly engages in hotel operations and generates service fee income in relation to hotel operation and other ancillary services.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments. Segment revenue represents revenue from external customers and there were no inter-segment sales between different operating segments during the year or in prior year. Segment profit/loss includes the Group's share of profit/loss arising from the activities of the Group's associates and joint ventures. Reportable segment profit/loss excludes corporate income and expenses and finance costs from the Group's profit before income tax. Corporate income and expenses are income and expenses incurred by corporate headquarters which are not allocated to the operating segments. Each of the operating segments is managed separately as the resources requirement of each of them is different.

Segment assets include all assets with the exception of tax assets and corporate assets, including certain cash and bank balances and other assets which are not directly attributable to the business activities of operating segments as these assets are managed on a group basis.

Segment liabilities include trade and other payables, accrued liabilities, amounts due to associates, joint ventures and non-controlling interests and other liabilities directly attributable to the business activities of the operating segments and exclude tax liabilities, corporate liabilities and liabilities such as borrowings, amounts due to related companies and guaranteed notes payable that are managed on a group basis.

Notes to the Financial Statements (continued)

7. SEGMENT INFORMATION (CONTINUED)

Disaggregation of revenue by timing of revenue recognition

Disaggregation of revenue from contracts with customers by timing of revenue recognition is set out as follows:

	Property investment and development RMB'000	Property leasing RMB'000	Other segment RMB'000	Consolidated RMB'000
For the year ended 31 December 2019				
Revenue from contracts with customers disaggregated by timing of revenue recognition				
— Goods transferred over time	5,857,234	—	—	5,857,234
— Goods transferred at a point in time	22,459,983	—	—	22,459,983
— Services transferred over time	—	—	81,108	81,108
	28,317,217	—	81,108	28,398,325
Revenue from other sources				
— Rental income	—	192,558	—	192,558
	28,317,217	192,558	81,108	28,590,883

	Property investment and development RMB'000 (Re-presented)	Property leasing RMB'000 (Re-presented)	Other segment RMB'000 (Re-presented)	Consolidated RMB'000 (Re-presented)
For the year ended 31 December 2018				
Revenue from contracts with customers disaggregated by timing of revenue recognition				
— Goods transferred over time	3,582,199	—	—	3,582,199
— Goods transferred at a point in time	17,692,272	—	—	17,692,272
— Services transferred over time	—	—	62,183	62,183
	21,274,471	—	62,183	21,336,654
Revenue from other sources				
— Rental income	—	188,014	—	188,014
	21,274,471	188,014	62,183	21,524,668

Notes to the Financial Statements (*continued*)

7. SEGMENT INFORMATION (CONTINUED)

Segment results, segment assets and segment liabilities

Information regarding the Group's reportable segments including the reportable segment revenue, segment profit/loss, segment assets, segment liabilities, reconciliation to revenue, profit before income tax, total assets, total liabilities and other segment information are as follows:

	Property investment and development RMB'000	Property leasing RMB'000	Other segment RMB'000	Consolidated RMB'000
For the year ended 31 December 2019				
Reportable segment revenue	28,317,217	192,558	81,108	28,590,883
Reportable segment profit/(loss)	8,262,218	148,235	(24,357)	8,386,096
Corporate income				16,284
Change in fair value of a derivative financial instrument				(3,927)
Finance costs				(33,843)
Other corporate expenses				(69,038)
Profit before income tax				<u>8,295,572</u>
As at 31 December 2019				
Reportable segment assets	126,820,483	2,945,112	1,086,185	130,851,780
Tax assets				2,405,769
Corporate assets [^]				839,725
Total consolidated assets				<u>134,097,274</u>
Reportable segment liabilities	72,380,346	89,740	16,788	72,486,874
Tax liabilities				8,809,426
Borrowings				27,268,161
Amounts due to related companies				379,230
Lease liabilities				36,158
Guaranteed notes payable				3,521,449
Other corporate liabilities				82,668
Total consolidated liabilities				<u>112,583,966</u>

Notes to the Financial Statements (continued)

7. SEGMENT INFORMATION (CONTINUED)

Segment results, segment assets and segment liabilities (Continued)

	Property investment and development RMB'000 (Re-presented)	Property leasing RMB'000 (Re-presented)	Other segment RMB'000 (Re-presented)	Consolidated RMB'000 (Re-presented)
For the year ended 31 December 2018				
Reportable segment revenue	21,274,471	188,014	62,183	21,524,668
Reportable segment profit/(loss)	5,276,326	140,860	(14,080)	5,403,106
Corporate income				74,688
Change in fair value of a derivative financial instrument				2,098
Finance costs				(77,665)
Other corporate expenses				(63,380)
Profit before income tax				5,338,847
As at 31 December 2018				
Reportable segment assets	95,605,493	2,583,655	1,030,115	99,219,263
Tax assets				1,271,932
Corporate assets [^]				3,135,611
Total consolidated assets				103,626,806
Reportable segment liabilities	50,482,182	89,491	11,408	50,583,081
Tax liabilities				6,205,604
Borrowings				22,370,308
Amounts due to related companies				378,390
Guaranteed notes payable				6,252,285
Other corporate liabilities				69,171
Total consolidated liabilities				85,858,839

[^] Corporate assets as at 31 December 2019 mainly included property, plant and equipment, right-of-use assets/prepaid lease rental on land and cash and bank balances of RMB114,851,000 (2018: RMB121,390,000), RMB100,137,000 (2018: RMB99,672,000) and RMB471,055,000 (2018: RMB2,858,648,000) respectively which are managed on a group basis.

Notes to the Financial Statements (*continued*)

7. SEGMENT INFORMATION (CONTINUED)

Segment results, segment assets and segment liabilities (Continued)

	Property investment and development RMB'000	Property leasing RMB'000	Other segment RMB'000	Corporate RMB'000	Consolidated RMB'000
Other information					
For the year ended 31 December 2019					
Interest income	328,994	808	152	7,233	337,187
Depreciation and amortization	10,531	5,847	46,604	17,393	80,375
Gain on bargain purchase	4	–	–	–	4
Fair value gain on reclassification of inventories of properties to investment properties	72,179	–	–	–	72,179
Gain on disposal of investment properties	–	2,355	–	–	2,355
Gain/(Loss) on disposal of property, plant and equipment	263	136	(8)	–	391
Write-off of property, plant and equipment	32	–	–	–	32
Fair value loss of a derivative financial instrument	–	–	–	3,927	3,927
Share of profit of associates	22,657	–	–	–	22,657
Share of profit of joint ventures	286,322	4,212	–	–	290,534
Additions to specified non-current assets [#]	14,266	25	86,311	2,872	103,474
As at 31 December 2019					
Interests in associates	46,299	–	–	–	46,299
Interests in joint ventures	788,484	113,142	–	–	901,626

Notes to the Financial Statements (continued)

7. SEGMENT INFORMATION (CONTINUED)

Segment results, segment assets and segment liabilities (Continued)

	Property investment and development RMB'000 (Re-presented)	Property leasing RMB'000 (Re-presented)	Other segment RMB'000 (Re-presented)	Corporate RMB'000 (Re-presented)	Consolidated RMB'000 (Re-presented)
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Other information

For the year ended 31 December 2018

Interest income	256,320	1,223	109	74,686	332,338
Depreciation and amortization	6,160	4,604	22,846	12,541	46,151
Gain on disposal of investment properties	–	1,829	–	–	1,829
Gain on disposal of property, plant and equipment	44	–	5	–	49
Write-off of property, plant and equipment	10	–	5	–	15
Fair value gain of a derivative financial instrument	–	–	–	2,098	2,098
Share of profit of associates	10,302	–	–	–	10,302
Share of profit of joint ventures	219,809	4,204	–	–	224,013
Additions to specified non-current assets [#]	5,458	350	55,356	1,022	62,186

As at 31 December 2018

Interests in associates	23,642	–	–	–	23,642
Interests in joint ventures	502,162	108,930	–	–	611,092

[#] Including additions to the Group's investment properties, other properties, plant and equipment, right-of-use assets, prepaid lease rental on land, intangible assets, interests in associates and joint ventures (i.e. "specified non-current assets"), but excluded those additions arising from the Acquisition as set out in note 42 and transfers from investment properties and inventories of properties to owner-occupied properties as well as transfer from inventories of properties to investment properties.

Notes to the Financial Statements (*continued*)

7. SEGMENT INFORMATION (CONTINUED)

Geographical information

All of the Group's revenue is derived from activities conducted in the PRC excluding Hong Kong. Accordingly, no analysis of the Group's revenue by geographical locations is presented.

An analysis of the Group's specified non-current assets by geographical locations, determined based on physical location of the assets or location of operations in case of interests in associates and joint ventures, is as follows:

	2019 RMB'000	2018 RMB'000 (Re-presented)
Hong Kong	7,155	1,173
Other regions of the PRC	5,124,125	4,258,346
	5,131,280	4,259,519

Information about major customer

None of the customers individually contributed 10% or more of the Group's revenue for the years ended 31 December 2019 and 2018.

8. OTHER INCOME

	2019 RMB'000	2018 RMB'000 (Re-presented)
Interest income on:		
Bank deposits	291,313	285,898
Amount due from a joint venture	8,903	12,744
Amounts due from non-controlling interests	36,971	33,696
Total interest income on financial assets measured at amortized cost	337,187	332,338
Sundry income	53,750	36,144
	390,937	368,482

Notes to the Financial Statements (continued)

9. PROFIT BEFORE INCOME TAX

	2019 RMB'000	2018 RMB'000 (Re-presented)
Profit before income tax is arrived at after charging/(crediting):		
Amortization		
Prepaid lease rental on land	–	7,993
Intangible assets [#]	2,908	3,877
Depreciation		
Property, plant and equipment	58,113	34,281
Right-of-use assets		
Land use rights held for own use	8,021	–
Other properties leased for own use	11,333	–
Total amortization and depreciation	80,375	46,151
Remuneration to auditor for audit services*		
— Current year	2,734	2,475
Cost of sales and services provided comprise		
— Amount of inventories recognized as expense	18,972,428	15,182,183
Net foreign exchange (gain)/loss (note (a))	(10,766)	129,451
Operating lease charge on land and buildings under HKAS 17	–	19,941
Lease expenses for short-term leases and other leases for which lease terms end within 31 December 2019	5,160	–
Outgoings in respect of:		
— investment properties	46,079	46,020
— others	8,943	23,280
	55,022	69,300
Net rental income from:		
— investment properties	(119,767)	(96,754)
— others	(17,769)	(21,960)
	(137,536)	(118,714)
Staff costs (note (b))	765,890	592,971
Gain on disposal of property, plant and equipment	391	49
Write-off of property, plant and equipment	32	15
Other taxes and levies	257,084	306,264

[#] included in “cost of sales and services provided” in the consolidated income statement

* fees for non-audit services rendered by the auditor amounted to RMB51,000 (2018: RMB295,000)

Notes to the Financial Statements (*continued*)

9. PROFIT BEFORE INCOME TAX (CONTINUED)

Notes:

(a) Net foreign exchange loss for the year ended 31 December 2018 amounting to RMB129,451,000 included net exchange loss of RMB118,561,000 arising from reduction of registered capital of three project companies established in the PRC in 2018, which was included in "other operating expenses" in the consolidated income statement as it was non-recurrent in nature whereas the remaining exchange loss of RMB10,890,000 was included in "administrative expenses".

(b) Staff costs (including directors' emoluments) comprise:

	2019 RMB'000	2018 RMB'000 (Re-presented)
Salaries, allowances and other benefits	725,976	555,464
Contributions to defined contribution retirement plans (note 44)	39,914	37,507
	765,890	592,971

10. FINANCE COSTS

	2019 RMB'000	2018 RMB'000 (Re-presented)
Interest on bank borrowings, overdrafts and other borrowings	1,075,201	876,436
Interest on amounts due to non-controlling interests	5,645	–
Interest on amounts due to related companies	3,362	40,961
Imputed interest expense on guaranteed notes payable (note 35)	182,020	242,147
Interest on lease liabilities (note 40(a))	1,132	–
Total interest expense on financial liabilities measured at amortized cost	1,267,360	1,159,544
Less: Amount capitalized (note)	(1,233,517)	(1,081,879)
	33,843	77,665

Note: Borrowing costs capitalized during the year arose from the general borrowing pool are calculated by applying an average capitalization rate of 4.31% (2018: 4.50%) per annum to expenditure on qualifying assets.

Notes to the Financial Statements (continued)

11. INCOME TAX EXPENSE

	2019 RMB'000	2018 RMB'000 (Re-presented)
Current tax for the year		
Hong Kong profits tax	–	–
Other regions of the PRC		
— Enterprise income tax (“EIT”)	2,458,164	1,563,667
— LAT	3,096,771	1,892,773
	5,554,935	3,456,440
Under provision in prior years		
Other regions of the PRC	30,243	2,284
Deferred tax (note 36)	(786,567)	(225,546)
	4,798,611	3,233,178

On 21 March 2018, the Hong Kong Legislative Council passed “The Inland Revenue (Amendment) (No. 7) Bill 2017” (the “Bill”) which introduces the two-tiered profits tax rates regime. The Bill became law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of qualifying entities will be taxed at 8.25% whereas profits above HK\$2 million will be taxed at 16.5%. The profits of entities that are subject to Hong Kong profits tax but not qualified for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. The two-tiered profits tax rates regime is applicable to a nominated qualifying entity in the Group for its annual reporting periods beginning on or after 1 January 2018.

No Hong Kong profits tax has been provided in the financial statements as the Group did not derive any estimated assessable profit in Hong Kong for the current year and in prior year.

EIT arising from other regions of the PRC is calculated at 25% (2018: 25%) on the estimated assessable profits.

PRC LAT is levied at progressive rates from 30% to 60% (2018: 30% to 60%) on the estimated appreciation of land value, being the proceeds of sales of properties less deductible expenditure including cost of land use rights and development and construction expenditure.

Notes to the Financial Statements (*continued*)

11. INCOME TAX EXPENSE (CONTINUED)

The income tax expense for the year can be reconciled to profit before income tax in the consolidated income statement at applicable tax rates as follows:

	2019 RMB'000	2018 RMB'000 (Re-presented)
Profit before income tax	8,295,572	5,338,847
Tax on profit at the rates applicable to profits in the jurisdictions concerned	2,162,913	1,399,628
Expenses not deductible for tax purpose	198,423	151,640
Income not taxable for tax purpose	(2,636)	(14,053)
Share of results of associates	(5,664)	(2,576)
Share of results of joint ventures	(72,633)	(56,003)
LAT deductible for calculation of income tax	(774,193)	(473,193)
Utilization of tax losses previously not recognized	(11,244)	(7,469)
Tax effect of tax losses not recognized	85,478	36,966
Under provision in prior years	30,243	2,284
Deferred tax provided for withholding tax on distributable profits of the Group's PRC subsidiaries	251,334	168,642
Others	27,226	11,838
	1,889,247	1,217,704
LAT	2,909,364	2,015,474
Income tax expense	4,798,611	3,233,178

12. DIVIDENDS

(a) Dividends payable to owners of the Company attributable to the year

	2019 RMB'000	2018 RMB'000 (Re-presented)
Interim dividend — HK\$0.06 (2018: HK\$0.03) per ordinary share	184,465	89,323
Proposed final dividend — HK\$0.195 (2018: HK\$0.112) per ordinary share (note)	586,810	322,741
	771,275	412,064

Note:

The final dividend of HK\$0.195 (2018: HK\$0.112) per ordinary share, amounting to HK\$667,555,000, equivalent to approximately RMB586,810,000 (2018: HK\$383,416,000, equivalent to approximately RMB322,741,000), has been proposed by the directors and is subject to approval by the shareholders of the Company in the forthcoming annual general meeting.

Notes to the Financial Statements (continued)

12. DIVIDENDS (CONTINUED)

(b) Dividends payable to owners of the Company attributable to the previous financial year

	2019 RMB'000	2018 RMB'000 (Re-presented)
Final dividend in respect of previous financial year, approved and paid during the year of HK\$0.112 (2018: HK\$0.03) per ordinary share	337,514	83,659

13. EARNINGS PER SHARE

The calculations of basic earnings per share attributable to owners of the Company are based on the following data:

	2019 RMB'000	2018 RMB'000 (Re-presented)
Earnings		
Profit for the year attributable to owners of the Company	3,329,681	2,043,204

	2019 '000	2018 '000
Weighted average number of ordinary shares		
Weighted average number of ordinary shares in issue during the year	3,423,360	3,322,354

The weighted average number of ordinary shares used for the purposes of calculating the basic earnings per share for the year ended 31 December 2018 represented the weighted average number of ordinary shares in issue in 2018, after taking into account of the bonus element in the Rights Issue which was completed on 5 February 2018 as set out in note 37.

Diluted earnings per share for the years ended 31 December 2019 and 2018 are same as the basic earnings per share as there have been no dilutive potential ordinary shares in existence during the year or prior year.

Notes to the Financial Statements (*continued*)

14. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS

Directors' emoluments disclosed pursuant to Section 383 of Hong Kong Companies Ordinance, Cap. 622, and the Companies (Disclosure of Information about Benefits of Directors) Regulation, Cap. 622G, are as follows:

Directors' emoluments

	Fees RMB'000	Salaries, allowances and other benefits RMB'000	Discretionary bonus RMB'000	Retirement fund contribution RMB'000	Total RMB'000
For the year ended 31 December 2019					
<i>Executive directors</i>					
Mr. Zhang Guiqing (note (a))	–	2,032	8,982	229	11,243
Mr. Yang Lin	–	1,572	6,156	189	7,917
<i>Non-executive director</i>					
Mr. Yan Jianguo	–	–	–	–	–
	–	3,604	15,138	418	19,160
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<i>Executive director</i>					
Mr. Wang Man Kwan, Paul (note (b))	–	3,075 (approximately RMB2,703)	2,200 (approximately RMB1,934)	154 (approximately RMB135)	5,429 (approximately RMB4,772)
<i>Non-executive director</i>					
Mr. Yung Kowk Kee, Billy (note (b))	400 (approximately RMB352)	–	–	–	400 (approximately RMB352)
<i>Independent non-executive directors</i>					
Dr. Chung Shui Ming, Timpson (note (b))	400 (approximately RMB352)	–	–	–	400 (approximately RMB352)
Mr. Lam Kin Fung, Jeffrey (note (b))	400 (approximately RMB352)	–	–	–	400 (approximately RMB352)
Mr. Lo Yiu Ching, Dantes (note (b))	400 (approximately RMB352)	–	–	–	400 (approximately RMB352)
	1,600 (approximately RMB1,408)	3,075 (approximately RMB2,703)	2,200 (approximately RMB1,934)	154 (approximately RMB135)	7,029 (approximately RMB6,180)

Notes to the Financial Statements (*continued*)

14. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS (CONTINUED)

Directors' emoluments (Continued)

	Fees RMB'000 (Re-presented)	Salaries, allowances and other benefits RMB'000 (Re-presented)	Discretionary bonus RMB'000 (Re-presented)	Retirement fund contribution RMB'000 (Re-presented)	Total RMB'000 (Re-presented)
For the year ended 31 December 2018					
<i>Executive directors</i>					
Mr. Zhang Guiqing	–	2,141	6,844	217	9,202
Mr. Yang Lin	–	1,493	4,865	178	6,536
<i>Non-executive director</i>					
Mr. Yan Jianguo	–	–	–	–	–
	–	3,634	11,709	395	15,738
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<i>Executive director</i>					
Mr. Wang Man Kwan, Paul (note (b))	–	2,997 (approximately RMB2,523)	2,150 (approximately RMB1,810)	150 (approximately RMB126)	5,297 (approximately RMB4,459)
<i>Non-executive director</i>					
Mr. Yung Kowk Kee, Billy (note (b))	250 (approximately RMB210)	–	–	–	250 (approximately RMB210)
<i>Independent non-executive directors</i>					
Dr. Chung Shui Ming, Timpson (note (b))	250 (approximately RMB210)	110 (approximately RMB93)	–	–	360 (approximately RMB303)
Mr. Lam Kin Fung, Jeffrey (note (b))	250 (approximately RMB210)	110 (approximately RMB93)	–	–	360 (approximately RMB303)
Mr. Lo Yiu Ching, Dantes (note (b))	250 (approximately RMB210)	110 (approximately RMB93)	–	–	360 (approximately RMB303)
	1,000 (approximately RMB840)	3,327 (approximately RMB2,802)	2,150 (approximately RMB1,810)	150 (approximately RMB126)	6,627 (approximately RMB5,578)

14. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS (CONTINUED)

Directors' emoluments (Continued)

Notes:

- (a) With effect from 11 February 2020, Mr. Zhang Guiqing resigned as executive director and Mr. Zhuang Yong was appointed as executive director.
- (b) The amounts are paid in HK\$. The RMB amounts are disclosed for presentation purpose only.

There was no arrangement under which a director waived or agreed to waive any emoluments during the year (2018: nil).

Five highest paid individuals

The five individuals with the highest emoluments in the Group include three (2018: three) directors, whose emoluments are included in the disclosures above. The emoluments of the remaining two (2018: two) highest paid individuals for the years ended 31 December 2019 and 2018 were as follows:

	2019 RMB'000	2018 RMB'000 (Re-presented)
Salaries, allowances and other benefits	2,446	2,330
Discretionary bonus	9,739	7,297
Retirement fund contributions	309	247
	12,494	9,874

Their emoluments were within the following bands:

	Number of individuals	
	2019	2018
HK\$5,000,001–HK\$5,500,000	–	1
HK\$6,000,001–HK\$6,500,000	–	1
HK\$6,500,001–HK\$7,000,000	1	–
HK\$7,500,001–HK\$8,000,000	1	–

No emolument was paid by the Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office (2018: nil).

Notes to the Financial Statements (*continued*)

15. INVESTMENT PROPERTIES

	2019 RMB'000	2018 RMB'000 (Re-presented)
Fair value		
At 1 January	2,337,314	2,369,977
Reclassification from inventories of properties (note (a))	429,000	–
Reclassification to owner-occupied properties (note (b))	(8,462)	–
Disposals (note (c))	(13,065)	(32,663)
At 31 December	2,744,787	2,337,314

Notes:

- (a) During the year ended 31 December 2019, the Group reclassified the commercial units of China Overseas Plaza in Lanzhou with net carrying value of RMB356,821,000 from inventories of properties to investment properties and recognized fair value gain of RMB72,179,000 in the profit or loss on the date of reclassification.
- (b) During the year ended 31 December 2019, the Group occupied certain office units of China Overseas Building (No. 9 Office Building) at Jilin as office premises and reclassified their land and building portion of RMB905,000 and RMB7,557,000 respectively as right-of-use assets and buildings within property, plant and equipment.
- (c) During the year ended 31 December 2019, the Group disposed of certain investment properties with aggregate carrying value of RMB13,065,000 (2018: RMB32,663,000) at aggregate consideration of RMB15,420,000 (2018: RMB34,492,000) and thus recognized gain on disposal of investment properties amounting to RMB2,355,000 (2018: RMB1,829,000).
- (d) The fair value of the investment properties as at 31 December 2019 and 2018 is a level 3 recurring fair value measurement, which uses significant unobservable inputs (i.e. inputs not derived from market data).

For the years ended 31 December 2019 and 2018, no fair value gain or loss arose from remeasurement of the Group's investment properties at the end of the reporting period.

- (e) The fair values of the Group's investment properties as at 31 December 2019 and 2018 were estimated by the directors with reference to the property valuation at that dates conducted by CHFT Advisory and Appraisal Limited.

CHFT Advisory and Appraisal Limited is an independent firm of professionally qualified valuers and has appropriate qualifications and recent experiences in the valuation of similar properties in nearby location.

Notes to the Financial Statements (continued)

15. INVESTMENT PROPERTIES (CONTINUED)

Notes: (Continued)

(e) (Continued)

Below is a summary of the valuation techniques used and the key inputs to the valuation:

Properties	Location	Valuation technique	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value			
China Overseas International Center (comprise office units, shops and car parks)	Beijing	Direct comparison approach: — For office units, shops and carparks	Selling price per unit of market comparables, taking into account differences such as age, location and individual factors including road frontage, size of property and design	Office units and shops: RMB29,754 to RMB59,410 per square meter ("sq.m.") (2018: RMB33,279 to RMB57,710 per sq.m.)	The higher the selling price per unit, the higher the fair value			
				Car parks: RMB219,304 per unit (2018: RMB278,481 per unit)				
				Income approach: Term and reversionary approach — For office units and shops		Term yield, taking into account of yield generated from comparable properties and adjustment to reflect the certainty of term income secured and to be received	6.3% to 7.3% (2018: 6.3% to 7.3%)	The higher the term yield, the lower the fair value
				Reversionary yield, taking into account annual unit market rental and unit market value of comparable properties		6.8% to 7.8% (2018: 6.8% to 7.8%)	The higher the reversionary yield, the lower the fair value	
				Monthly rent, using direct market comparables and taking into account differences such as age, location and individual factors including road frontage, size of property and design		RMB247 to RMB469 per sq. m. (2018: RMB184 to RMB419 per sq.m.)	The higher the monthly rent, the higher the fair value	
			Vacancy rate, using direct market comparables and taking into account differences such as age, location and individual factors including road frontage, size of property and design	2.8% to 43.9% (2018: 8.5% to 62.0%)	The higher the vacancy rate, the lower the fair value			
China Overseas Building (No. 9 Office Building) (comprise office units and car parks)	Jilin	Direct comparison approach	Selling price per unit of market comparables, taking into account differences such as age, location and individual factors including road frontage, size of property and design	Office units: RMB7,340 per sq.m. (2018: RMB6,640 per sq.m.) Car parks: RMB60,526 per unit (2018: RMB44,792 per unit)	The higher the selling price, the higher the fair value			
CITIC Building (office units)	Shantou	Direct comparison approach	Selling price per unit of market comparables, taking into account differences such as age, location and individual factors including road frontage, size of property and design	Office units: RMB5,761 per sq.m. (2018: RMB5,761 per sq.m.)	The higher the selling price per unit, the higher the fair value			

Notes to the Financial Statements (continued)

15. INVESTMENT PROPERTIES (CONTINUED)

Notes: (Continued)

(e) (Continued)

Properties	Location	Valuation technique	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value
Jin Xin Building (office units)	Shantou	Direct comparison approach	Selling price per unit of market comparables, taking into account differences such as age, location and individual factors including road frontage, size of property and design	Office units: RMB6,336 per sq.m. (2018: RMB6,336 per sq.m.)	The higher the selling price per unit, the higher the fair value
China Overseas Plaza (commercial units)	Lanzhou	Residual approach	Average unit price per sq. m.	RMB13,717 per sq.m.	The higher the average unit price, the higher the fair value
			Estimated costs to completion per sq.m.	RMB4,269 per sq.m.	The higher the estimated costs to completion, the lower the fair value
			Estimated developer's profit	15%	The higher the developer's profit, the lower the fair value

Fair value measurements are based on the highest and best use of the investment properties, which does not differ from their actual use.

Under the direct comparison approach, fair value is estimated by reference to the selling prices of comparable properties in close proximity which have been adjusted for differences in key attributes of the properties being valued and the comparable properties such as property age, size, characteristics and facilities.

Under the income approach: term and reversionary approach, fair value is estimated by taking into account the current passing rents of the properties and the reversionary potentials of the tenancies.

In arriving at the value for the property interests under development, the Group has adopted the residual approach, by assuming sale of each of these property interests with the benefits of vacant possession and making reference to comparable sales evidence as available in the relevant market to arrive the capital values of the properties as if the properties were completed at the date of valuation and have also taken into consideration the development costs already spent and to be spent to reflect the quality of the completed development. Residual approach involves an estimation the capital value of a development with reference to its development potential by deducting costs and developer's profit from its estimated completed development value.

- (f) The investment properties are leased to third parties and related companies under operating leases to earn rental income, further details of which are included in note 40(b).
- (g) As at 31 December 2019 and 2018, none of the Group's investment properties were pledged as securities for the borrowings and banking facilities of the Group.

Notes to the Financial Statements (*continued*)

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improvements RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
COST						
At 1 January 2018 (Re-presented)	444,756	3,414	50,835	26,294	536,009	1,061,308
Translation adjustment	-	66	4	199	-	269
Additions	12	1,022	5,849	303	55,000	62,186
Disposals	-	-	(144)	(199)	-	(343)
Write-off	-	(3,438)	(2,123)	(54)	-	(5,615)
At 31 December 2018 and 1 January 2019 (Re-presented)	444,768	1,064	54,421	26,543	591,009	1,117,805
Translation adjustment	-	76	2	41	-	119
Additions	-	2,757	22,004	3,776	67,268	95,805
Acquisition of subsidiaries (note 42)	-	-	94	-	-	94
Reclassification from investment properties (note 15(b))	7,557	-	-	-	-	7,557
Reclassification from inventories of properties (note (a))	24,222	-	-	-	-	24,222
Transfer upon completion	658,277	-	-	-	(658,277)	-
Disposals	-	-	(2,945)	(4,490)	-	(7,435)
Write-off	-	-	(1,730)	(576)	-	(2,306)
At 31 December 2019	1,134,824	3,897	71,846	25,294	-	1,235,861
DEPRECIATION						
At 1 January 2018 (Re-presented)	28,296	3,405	15,042	21,975	-	68,718
Translation adjustment	-	24	4	96	-	124
Depreciation provided	26,139	9	5,243	2,890	-	34,281
Disposal	-	-	(132)	(163)	-	(295)
Write-off	-	(3,438)	(2,108)	(54)	-	(5,600)
At 31 December 2018 and 1 January 2019 (Re-presented)	54,435	-	18,049	24,744	-	97,228
Translation adjustment	-	7	2	40	-	49
Depreciation provided	49,361	391	6,950	1,411	-	58,113
Disposals	-	-	(2,931)	(4,348)	-	(7,279)
Write-off	-	-	(1,698)	(576)	-	(2,274)
At 31 December 2019	103,796	398	20,372	21,271	-	145,837
NET CARRYING AMOUNT						
At 31 December 2019	1,031,028	3,499	51,474	4,023	-	1,090,024
At 31 December 2018 (Re-presented)	390,333	1,064	36,372	1,799	591,009	1,020,577

Notes to the Financial Statements (continued)

16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Notes:

- (a) During the year ended 31 December 2019, the Group occupied certain commercial units and office units as office premises which were previously held for sale and classified as inventories of properties. The carrying value of these commercial and office units amounted to RMB71,492,000. The Group reclassified the land portion and the building portion of these commercial and office units amounting to RMB47,270,000 and RMB24,222,000 respectively as right-of-use assets and buildings within property, plant and equipment respectively.
- (b) As at 31 December 2019, none of the owned-occupied properties were pledged as collateral for the borrowings and banking facilities of the Group. As at 31 December 2018, owner-occupied properties (including prepaid lease rental on land) with net carrying amount of RMB220,120,000 were pledged as collateral for the borrowings and banking facilities of the Group (note 45).

17. PREPAID LEASE RENTAL ON LAND

	2019 RMB'000	2018 RMB'000 (Re-presented)
At 1 January as originally reported	271,979	279,972
Adjustment on initial adoption of HKFRS 16 (note 2.1)	(271,979)	–
At 1 January as restated	–	279,972
Amortization charged	–	(7,993)
At 31 December	–	271,979
Analyzed into:		
Non-current portion included in non-current assets	–	263,986
Current portion included in current assets	–	7,993
	–	271,979

18. INTANGIBLE ASSETS

	Shopping mall operating right RMB'000
COST	
At 1 January 2018 (Re-presented), 31 December 2018 (Re-presented), 1 January 2019 (Re-presented) and 31 December 2019	59,491
AMORTIZATION AND IMPAIRMENT	
At 1 January 2018 (Re-presented)	52,706
Amortization charged	3,877
At 31 December 2018 and 1 January 2019 (Re-presented)	56,583
Amortization charged	2,908
At 31 December 2019	59,491
NET CARRYING AMOUNT	
At 31 December 2019	–
At 31 December 2018 (Re-presented)	2,908

Notes to the Financial Statements (*continued*)

19. INTERESTS IN ASSOCIATES

	2019 RMB'000	2018 RMB'000 (Re-presented)
Share of net assets	46,299	23,642

Details of the Group's associates as at 31 December 2019 are set out in note 53.

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2019 RMB'000	2018 RMB'000 (Re-presented)
For the year ended 31 December		
Share of the associates' results for the year	22,657	10,302
Share of the associates' other comprehensive income for the year	–	–
Share of the associates' total comprehensive income	22,657	10,302
Dividends received from associates	–	100,266
As at 31 December		
Aggregate carrying amount of the Group's interests in associates	46,299	23,642

Notes to the Financial Statements (continued)

20. INTERESTS IN JOINT VENTURES

	2019 RMB'000	2018 RMB'000 (Re-presented)
Share of net assets	901,626	611,092
Less: Impairment	–	–
	901,626	611,092

As at 31 December 2019 and 2018, the Group had equity interests in 上海金鶴數碼科技發展有限公司 (“Shanghai Jinhe”), 中海宏洋海富(合肥)房地產開發有限公司 (“Hefei Haifu”) and 汕頭中海凱旋置業有限公司 (“Shantou Kaixuan”). Shanghai Jinhe is a separate structured vehicle incorporated in the PRC which is principally engaged in property investment and property leasing in Shanghai. The Group has joint control over this arrangement as unanimous consent is required from all parties to the arrangement for the relevant activities of Shanghai Jinhe.

Hefei Haifu and Shantou Kaixuan are project companies for which the Group develops property projects jointly with the other venturers. Pursuant to the constitutional documents, the Group and the other venturers have joint control over Hefei Haifu and Shantou Kaixuan having regard to the voting power in the shareholders’ and directors’ meetings.

The contractual arrangements in relation to the aforesaid companies provide the Group with only the rights to the net assets of the joint arrangements, with the rights to the assets and obligation for the liabilities of the joint arrangements resting primarily with these companies.

Details of the Group’s joint ventures as at 31 December 2019 are set out in note 54.

In the opinion of the directors, Shantou Kaixuan is a material joint venture for the year ended 31 December 2019 whereas Hefei Haifu was a material joint venture for the year ended 31 December 2018. The following table illustrates the summarized financial information in respect of Shantou Kaixuan and Hefei Haifu adjusted for any differences in accounting policies and reconciled to the carrying amount in the financial statements for the respective years.

Notes to the Financial Statements (*continued*)

20. INTERESTS IN JOINT VENTURES (CONTINUED)

Summarized financial information of Shantou Kaixuan:

	RMB'000
As at 31 December 2019	
Cash and cash equivalents	77,150
Other current assets	910,060
Current assets	987,210
Non-current assets	107
Trade and other payables	226,110
Other current financial liabilities	479
Other current liabilities	129,076
Current liabilities	355,665
Net assets	631,652
Reconciliation to the Group's interests in the joint venture:	
Proportion of the Group's ownership	51%
Group's share of net assets of the joint venture	322,142
	RMB'000
For the year ended 31 December 2019	
Revenue	1,595,895
Interest income	1,992
Depreciation and amortization	(136)
Interest expense	(21,492)
Income tax expense	(260,502)
Profit for the year	469,917
Other comprehensive income for the year	-
Total comprehensive income for the year	469,917
Dividend received	-

Notes to the Financial Statements (continued)

20. INTERESTS IN JOINT VENTURES (CONTINUED)

Summarized financial information of Hefei Haifu:

	RMB'000 (Re-presented)
As at 31 December 2018	
Cash and cash equivalents	192,738
Other current assets	1,972,123
Current assets	2,164,861
Non-current assets	177
Trade and other payables	229,310
Other current liabilities	503,113
Current liabilities	732,423
Non-current financial liabilities	500,000
Non-current liabilities	500,000
Net assets	932,615
Reconciliation to the Group's interests in the joint venture:	
Proportion of the Group's ownership	45%
Group's share of net assets of the joint venture	419,677

	RMB'000 (Re-presented)
For the year ended 31 December 2018	
Revenue	1,873,236
Interest income	5,487
Depreciation and amortization	(76)
Interest expense	(3,702)
Income tax expense	(423,097)
Profit for the year	410,529
Other comprehensive income for the year	–
Total comprehensive income for the year	410,529
Dividend received	–

Notes to the Financial Statements (*continued*)

20. INTERESTS IN JOINT VENTURES (CONTINUED)

The following table illustrates the aggregate financial information of the Group's joint ventures that are not individually material:

	2019 RMB'000	2018 RMB'000 (Re-presented)
For the year ended 31 December		
Share of the joint ventures' profit for the year	50,876	39,275
Share of the joint ventures' other comprehensive income for the year	–	–
Share of the joint ventures' total comprehensive income	50,876	39,275
As at 31 December		
Aggregate carrying amount of the Group's interests in joint ventures	579,484	191,415

21. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019 RMB'000	2018 RMB'000 (Re-presented)
Unlisted equity instruments	1,000	1,000

The Group holds certain unlisted equity instruments for long-term strategic purposes and does not intend to dispose of them in near future. These unlisted equity investments were irrevocably designated as financial assets at fair value through other comprehensive income.

22. A DERIVATIVE FINANCIAL INSTRUMENT

In 2017, the Group entered into an interest rate swap contract for a bank loan which is interest-bearing at floating rate. The notional amount of this interest rate swap contract is United States Dollars ("US\$") 40,000,000, which swaps interest rate on floating basis at 3-month London InterBank Offered Rate plus 1.515% per annum to fixed rate of 3.2% per annum. The contract period is 3 years commencing on 6 January 2017 and would mature on 6 January 2020.

The fair value of the interest rate swap contract as at 31 December 2019 as assessed by the director was nil and the decrease in fair value amounting to RMB3,927,000 was recognized in profit or loss under "other gains or losses — change in fair value of a derivative financial instrument".

The fair value of the interest rate swap contract as at 31 December 2018 was RMB3,914,000. The Group recognized "a derivative financial instrument" under non-current assets as at 31 December 2018 with the increase in fair value amounting to RMB2,098,000 being credited to profit or loss for the year ended 31 December 2018 under "other gains or losses — change in fair value of a derivative financial instrument".

Notes to the Financial Statements (continued)

23. INVENTORIES OF PROPERTIES

	2019 RMB'000	2018 RMB'000 (Re-presented)
Properties under development, at cost	79,184,977	50,998,872
Properties held for sale, at cost	7,212,343	8,304,258
	86,397,320	59,303,130

As at 31 December 2019, properties under development amounting to RMB44,942,638,000 (2018: RMB38,775,042,000) are not expected to be recovered within twelve months from the end of the reporting period.

As at 31 December 2019, leasehold interests in land included in inventories of properties amounted to RMB59,251,045,000 (2018: RMB29,831,362,000).

As at 31 December 2019, inventories of properties with aggregate carrying value of RMB1,416,589,000 (2018: RMB200,600,000) were pledged as securities for the borrowings and banking facilities of the Group, which will be released upon the Group's settlement of the borrowings and banking facilities (note 45).

24. OTHER INVENTORIES

	2019 RMB'000	2018 RMB'000 (Re-presented)
Raw materials and consumables	4,269	1,631

25. CONTRACT ASSETS

Details of the contract assets recognized by the Group are as follows:

	2019 RMB'000	2018 RMB'000 (Re-presented)
Contract costs of obtaining contracts (note)	49,732	14,007

Note:

Contract costs capitalized as at 31 December 2019 and 2018 related to the incremental costs incurred in obtaining the contracts, primarily sale commission and stamp duty paid/payable. Contract costs are recognized in profit or loss in the period in which revenue from the related property sales is recognized. The amount of capitalized contract costs recognized in profit or loss for the year ended 31 December 2019 was RMB113,703,000 (2018: RMB82,983,000). There was no impairment provision in relation to capitalized contract costs as at 31 December 2019 (2018: nil).

Notes to the Financial Statements (*continued*)

26. TRADE AND OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	2019 RMB'000	2018 RMB'000 (Re-presented)
Trade receivables	16,826	64,911
Less: Loss allowance for impairment of trade receivables (note (b))	–	–
Trade receivables, net (note (a))	16,826	64,911
Other receivables (note (c))	3,153,957	2,220,023
Prepayments and deposits (note (d))	8,702,684	6,615,948
Less: Loss allowance for impairment of other receivables (note (e))	(6,000)	(6,000)
	11,850,641	8,829,971
	11,867,467	8,894,882

Notes:

- (a) The credit terms in connection with sales of properties granted to the buyers are set out in the sale and purchase agreements and vary for different agreements. Rentals receivable from tenants and service income receivable from customers are generally due on presentation of invoices.

The ageing analysis of the Group's trade receivables based on invoice date or when appropriate, date of transfer of property, is as follows:

	2019 RMB'000	2018 RMB'000 (Re-presented)
30 days or below	10,407	62,528
31–60 days	236	54
61–90 days	166	71
91–180 days	27	1,192
181–360 days	489	107
Over 360 days	5,501	959
	16,826	64,911

- (b) The Group recognizes loss allowance for impairment of trade receivables based on the accounting policies stated in note 4.12(ii). Further details of the Group's credit policy and credit risk arising from trade receivables are set out in note 51.3.
- (c) The balances of other receivables mainly comprise the followings:
- Proceeds received from sales of properties amounting to RMB1,725,053,000 (2018: RMB1,217,864,000) paid by the Group to certain government agencies as deposits. In accordance with the relevant regulations in certain PRC cities, certain project companies are required to place proceeds received from sales of properties to the government agencies. The project companies can apply for release of the proceeds when the construction work of the property projects has reached certain milestones stipulated in the pre-sale proceeds supervision agreements.
 - Compensation for land resumption receivable from local government authority amounting to approximately RMB577 million as at 31 December 2019 (2018: nil) as further detailed in note 47(b).

Notes to the Financial Statements (continued)

26. TRADE AND OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

(d) The balance of prepayments and deposits mainly comprise the followings:

(i) Deposits amounting to RMB4,864,193,000 (2018: RMB4,573,419,000) paid by the Group for the acquisition of lands in the PRC.

At the end of the reporting period, the application of the land certificates of certain land parcels was still in progress, in particular for those land parcels acquired by the Group near the reporting date. As assessed by the directors, the land certificates of those land parcels will be issued to the Group in due course upon completion of the relevant administrative procedures without encountering significant difficulty.

(ii) Previously, the Group incurred expenditure and made payment for the primary development on certain areas in Hohhot-Inner Mongolia (the "Primary Development Land"). Subsequently, the Group successfully acquired land use right for certain area of the Primary Development Land through public tender. According to the approval document issued by the relevant land authority in Hohhot, the cost of these lands acquired was offset against the payment made by the Group for the Primary Development Land. As at 1 January 2018, the outstanding amount paid by the Group for the Primary Development Land was RMB61,596,000. During the year ended 31 December 2018, the Group successfully acquired a land parcel in Hohhot-Inner Mongolia at acquisition cost of RMB43,541,000. The Group and the land authority agreed that the land consideration for this land parcel was offset against the payment made by the Group for the Primary Development Land.

(e) The movement in the loss allowance for other receivables during the year is as follows:

	2019 RMB'000	2018 RMB'000 (Re-presented)
At beginning and end of the year	6,000	6,000

The Group recognizes loss allowance for impairment of other receivables based on the accounting policies stated in note 4.12(ii). Further details of the Group's credit policy and credit risk arising from other receivables are set out in note 51.3.

27. AMOUNTS DUE FROM/TO ASSOCIATES

The amounts due from/to associates as at 31 December 2019 and 2018 are unsecured, interest-free and repayable on demand.

28. AMOUNTS DUE FROM/TO JOINT VENTURES

The amounts due from/to joint ventures as at 31 December 2019 and 2018 are unsecured, interest-free and repayable on demand except for an amount due from a joint venture as at 31 December 2018 amounting to RMB255,000,000. This amount represented a loan granted to the joint venture in 2017, which was unsecured, interest-bearing at fixed rate of 5.225% per annum and repayable in September 2019. This loan was fully settled by the joint venture during the year ended 31 December 2019.

29. AMOUNTS DUE FROM/TO NON-CONTROLLING INTERESTS

The amounts due from/to non-controlling interests as at 31 December 2019 and 2018 are unsecured, interest-free and repayable on demand.

During the year ended 31 December 2019, the entire amount of dividends attributable to non-controlling interests amounting to RMB127,500,000 was credited to the current account with the non-controlling interests.

Notes to the Financial Statements (*continued*)

30. AMOUNTS DUE FROM/TO RELATED COMPANIES

The amount due from a related company as at 31 December 2019 represented land resumption compensation receivable from a related company as further detailed in note 47(b). The amount is unsecured, non-interest bearing and expected to be received within one year.

The amounts due to related companies as at 31 December 2019 and 2018 are unsecured, interest-free and repayable on demand except for the balance amounting to RMB75,026,000 as at 31 December 2019 (2018: RMB75,026,000) which is interest-bearing at the People's Bank of China prevailing lending rate and repayable on 18 October 2020.

31. RESTRICTED CASH AND DEPOSITS/CASH AND BANK BALANCES

	2019 RMB'000	2018 RMB'000 (Re-presented)
Cash at banks and in hand (note (b))	27,426,734	29,145,872
Less: Restricted cash and deposits (note (a))	(10,671,299)	(6,924,235)
Cash and bank balances	16,755,435	22,221,637

Notes:

(a) Certain bank balances are restricted as follows:

- In accordance with the relevant documents issued by the PRC State-Owned Land and Resources Bureau, certain subsidiaries engaging in property development are required to place in designated bank accounts certain amount of pre-sale proceeds of properties as guarantee deposits for the construction of the related properties. The deposits can only be used for purchases of construction materials and payments of construction fees of the relevant property projects when approval from the PRC State-Owned Land and Resources Bureau is obtained. Such guarantee deposits will only be released after the completion of development of the related pre-sale properties or issuance of the real estate ownership certificates, whichever is the earlier.
- In relation to the mortgage agreements entered into by the buyers and the banks, certain subsidiaries are required to place proceeds received from sales of properties as guarantee deposits in designated bank accounts maintained with the banks. These deposits can only be used to settle construction fees of the relevant property projects and for certain other cases, these deposits could be used to settle the project loans arranged with the banks to finance the relevant property projects. Balances deposited in these designated bank accounts are subject to monitoring by the banks.

The amount of cash restricted for the above purposes as at 31 December 2019 was RMB10,671,299,000 (2018: RMB6,924,235,000).

- (b) Cash balance denominated in RMB amounted to approximately RMB27,174,700,000 as at 31 December 2019 (2018: RMB26,287,776,000). The RMB is not freely convertible into other currencies.
- (c) Cash at bank earns interest at floating rates based on daily bank deposits rates. Short-term time deposits are made for periods depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates. The directors consider that the fair values of the short-term deposits are not materially different from their carrying amounts because of the short maturity period.

As at 31 December 2019, the Group had short-term time deposits amounting to RMB454,612,000, which had original maturity of seven to eight days and earned interest income at interest rates ranged from 2.10% to 2.77% per annum. The Group's short-term time deposits as at 31 December 2018 amounted to RMB3,343,192,000, of which deposits of RMB3,162,657,000 had original maturity of six to eight months and earned interest income at interest rates ranged from 1.82% to 3.43% per annum whereas the remaining balance of RMB180,535,000 had original maturity of one month and earned interest income at interest rates ranged from 2.97% to 3.31% per annum. The entire amount of short-term time deposits as of 31 December 2019 and 2018 were included in "cash and bank balances".

Notes to the Financial Statements (continued)

32. TRADE AND OTHER PAYABLES

	2019 RMB'000	2018 RMB'000 (Re-presented)
Trade payables (note)	10,153,883	8,028,524
Other payables and accruals	1,573,573	1,242,799
Deposits received	262,332	210,229
	11,989,788	9,481,552

Note:

The ageing analysis of the Group's trade payables based on invoice date or contract terms, where appropriate, is as follows:

	2019 RMB'000	2018 RMB'000 (Re-presented)
30 days or below	2,919,207	2,428,723
31–60 days	695,632	285,018
61–90 days	317,989	311,950
91–180 days	1,128,954	759,599
181–360 days	1,350,838	1,317,106
Over 360 days	3,741,263	2,926,128
	10,153,883	8,028,524

33. CONTRACT LIABILITIES

	2019 RMB'000	2018 RMB'000 (Re-presented)
Property development — sales deposits and instalments received	54,618,728	37,923,862

Property development

The Group receives payments of the contract sum (value-added tax inclusive) from customers based on the billing schedule as set out in the contracts for sales of properties. Payments are usually received in advance of the performance under the sales contracts.

Revenue recognized for the year ended 31 December 2019 that was included in contract liabilities at the beginning of the year was RMB19,191,601,000 (2018: RMB14,568,910,000).

The amount of sales deposits and instalments received expected to be recognized as revenue after more than one year is RMB17,460,311,000 (2018: RMB13,419,183,000).

Notes to the Financial Statements (*continued*)

34. BORROWINGS

	2019 RMB'000	2018 RMB'000 (Re-presented)
Current liabilities		
Bank borrowings	11,496,478	4,185,101
Other loans	160,000	1,300,000
	11,656,478	5,485,101
Non-current liabilities		
Bank borrowings	14,471,683	16,885,207
Other loans	1,140,000	–
	15,611,683	16,885,207
	27,268,161	22,370,308

	2019 RMB'000	2018 RMB'000 (Re-presented)
Analyzed into:		
Bank borrowings		
Secured	129,000	90,506
Unsecured	25,839,161	20,979,802
	25,968,161	21,070,308
Other loans		
Unsecured	1,300,000	1,300,000
	27,268,161	22,370,308

As at 31 December 2019, borrowings amounting to RMB129,000,000 (2018: RMB90,506,000) were secured by properties of the Group (note 45). In addition, none of the Group's borrowings as at 31 December 2019 was guaranteed by the subsidiaries of COLI whereas borrowings amounting to RMB14,506,000 as at 31 December 2018 were guaranteed by certain subsidiaries of COLI.

Bank borrowings were scheduled for repayment as follows:

	2019 RMB'000	2018 RMB'000 (Re-presented)
On demand or within one year	11,496,478	4,185,101
More than one year, but not exceeding two years	5,862,148	8,739,746
More than two years, but not exceeding five years	8,609,535	8,145,461
	25,968,161	21,070,308

Notes to the Financial Statements (continued)

34. BORROWINGS (CONTINUED)

Other loans were scheduled for repayment as follows:

	2019 RMB'000	2018 RMB'000 (Re-presented)
On demand or within one year	160,000	1,300,000
More than one year, but not exceeding two years	820,000	–
More than two years, but not exceeding five years	320,000	–
	1,300,000	1,300,000

The above analysis is based on scheduled repayment dates as set out in the loan agreements or the repayment schedules agreed with the banks and other lenders.

The carrying amounts of borrowings are denominated in the following currencies:

	2019 RMB'000	2018 RMB'000 (Re-presented)
HK\$	10,960,315	7,257,577
RMB	16,026,560	13,415,616
US\$	281,286	1,697,115
	27,268,161	22,370,308

As at 31 December 2019, the Group's borrowings have been arranged as follows:

- borrowings denominated in HK\$ are interest-bearing at annual floating rates of 3.72% to 4.96% (2018: 3.35% to 4.84%);
- borrowings denominated in US\$ amounting to RMB281,286,000 (2018: RMB275,125,000) are interest-bearing at annual floating rate of 3.45% (2018: 4.00%) while the remaining balance as at 31 December 2018 amounting to RMB1,421,990,000 was interest-bearing at annual fixed rate of 3.80%; and
- borrowings denominated in RMB amounting to RMB14,726,560,000 (2018: RMB12,915,616,000) are interest-bearing at annual floating rate of 4.70% to 5.23% (2018: 4.28% to 5.23%) while the remaining balance of RMB1,300,000,000 (2018: RMB500,000,000) are interest-bearing at annual fixed rates of 3.80% to 5.23% (2018: 3.80%).

In respect of those borrowings which have been arranged to finance property development projects, the Group is required to place sales proceeds received from the buyers, rental income received and fund raised in relation to those projects into designated bank accounts. These bank accounts are subject to monitoring by the banks and the financial institutions and they have priority to claim repayment for the borrowings from these designated accounts.

Notes to the Financial Statements (*continued*)

35. GUARANTEED NOTES PAYABLE

	2019 RMB'000	2018 RMB'000 (Re-presented)
Current liabilities		
Guaranteed notes payable	–	2,813,771
Non-current liabilities		
Guaranteed notes payable	3,521,449	3,438,514
	3,521,449	6,252,285

(a) *Guaranteed notes issued in 2014*

On 15 January 2014, the Company and China Overseas Grand Oceans Finance II (Cayman) Limited (“COGO Finance II”), a wholly-owned subsidiary of the Company incorporated in the Cayman Islands, entered into a subscription agreement (the “2014 Notes Subscription Agreement”) regarding the issue of guaranteed notes in aggregate principal amount of US\$400,000,000 (the “2014 Guaranteed Notes”). The completion of the 2014 Notes Subscription Agreement took place and the 2014 Guaranteed Notes were issued on 23 January 2014. The 2014 Guaranteed Notes were issued at 99.037% of the principal amount.

The 2014 Guaranteed Notes are unsecured and unsubordinated obligations of COGO Finance II, and are unconditionally and irrevocably guaranteed by the Company.

Interest on the 2014 Guaranteed Notes is payable semi-annually in arrears on 23 January and 23 July in each year at the rate of 5.125% per annum, commencing on 23 July 2014.

COGO Finance II may at any time upon giving not less than 30 or more than 60 days’ notice to the noteholders, redeem the 2014 Guaranteed Notes, in whole but not in part, at the early redemption amount as defined in the 2014 Notes Subscription Agreement. The 2014 Guaranteed Notes are also subject to redemption at the option of the noteholders under certain conditions.

Unless previously redeemed, or purchased and cancelled, the 2014 Guaranteed Notes would mature on 23 January 2019 at their principal amount.

Further details regarding the issue of the 2014 Guaranteed Notes have been set out in the announcement of the Company dated 16 January 2014.

Notes to the Financial Statements (*continued*)

35. GUARANTEED NOTES PAYABLE (CONTINUED)

(a) Guaranteed notes issued in 2014 (Continued)

The net proceeds from the issue of the 2014 Guaranteed Notes at 99.037% of the principal amount after deducting the direct transaction costs of RMB16,527,000 were RMB2,401,766,000. The guaranteed notes payable are initially measured at fair value, net of directly attributable costs incurred and subsequently, measured at amortized cost using the effective interest rate of 5.505% per annum. For the year ended 31 December 2019, imputed interest of RMB8,004,000 was incurred (2018: RMB145,066,000). The 2014 Guaranteed Notes were listed on the Stock Exchange. With reference to the average quotation of the 2014 Guaranteed Notes published by a leading global financial market data provider, the fair value of the 2014 Guaranteed Notes as at 31 December 2018 was RMB2,753,202,000 and it is within Level 1 of the fair value hierarchy.

The 2014 Guaranteed Notes matured on 23 January 2019 and the Group fully settled the outstanding principal of US\$400,000,000 (equivalent to approximately RMB2,719,792,000) together with the interest accrued thereon amounting to US\$10,250,000 (equivalent to approximately RMB70,730,000), which amounted to RMB2,790,522,000 in aggregate.

(b) Guaranteed notes issued in 2018

On 24 May 2018, the Company and China Overseas Grand Oceans Finance IV (Cayman) Limited ("COGO Finance IV"), a wholly-owned subsidiary of the Company incorporated in the Cayman Islands, entered into a subscription agreement (the "2018 Notes Subscription Agreement") regarding the issue of guaranteed notes in aggregate principal amount of US\$500,000,000 (the "2018 Guaranteed Notes"). The completion of the 2018 Notes Subscription Agreement took place and the 2018 Guaranteed Notes were issued on 1 June 2018. The 2018 Guaranteed Notes were issued at 99.917% of the principal amount.

The 2018 Guaranteed Notes are unsecured and unsubordinated obligations of COGO Finance IV, and are unconditionally and irrevocably guaranteed by the Company.

Interest on the 2018 Guaranteed Notes is payable semi-annually in arrears on 1 June and 1 December in each year at the rate of 4.875% per annum, commencing on 1 December 2018.

COGO Finance IV may at any time upon giving not less than 30 or more than 60 days' notice to the noteholders, redeem the 2018 Guaranteed Notes, in whole but not in part, at the early redemption amount as defined in the 2018 Notes Subscription Agreement. The 2018 Guaranteed Notes are also subject to redemption at the option of the noteholders under certain conditions.

Unless previously redeemed, or purchased and cancelled, the 2018 Guaranteed Notes will mature on 1 June 2021 at their principal amount.

35. GUARANTEED NOTES PAYABLE (CONTINUED)

(b) Guaranteed notes issued in 2018 (Continued)

The net proceeds from the issue of the 2018 Guaranteed Notes at 99.917% of the principal amount after deducting the direct transaction costs of RMB13,906,000 were RMB3,189,059,000. The guaranteed notes payable are initially measured at fair value, net of directly attributable costs incurred and subsequently, measured at amortized cost using the effective interest rate of 5.063% per annum. For the year ended 31 December 2019, imputed interest of RMB174,016,000 was incurred (2018: RMB97,081,000). The 2018 Guaranteed Notes are listed on the Stock Exchange. With reference to the average quotation of the 2018 Guaranteed Notes published by a leading global financial market data provider, the fair value of the 2018 Guaranteed Notes as at 31 December 2019 was RMB3,607,533,000 (2018: RMB3,422,072,000) and it is within Level 1 of the fair value hierarchy.

(c) The movements of the carrying amount of the guaranteed notes payable are set out as below:

	RMB'000
Carrying amount as at 1 January 2018 (Re-presented)	2,640,792
Fair value on initial recognition of 2018 Guaranteed Notes (note (b))	3,202,965
Direct transaction costs of issuing 2018 Guaranteed Notes (note (b))	(13,906)
Imputed interest expense (note 10)	242,147
Finance costs paid	(215,991)
Translation adjustment	396,278
Carrying amount as at 31 December 2018 and 1 January 2019 (Re-presented)	6,252,285
Imputed interest expense (note 10)	182,020
Finance costs paid	(238,930)
Redemption of 2014 Guaranteed Notes (note (a))	(2,719,792)
Translation adjustment	45,866
Carrying amount as at 31 December 2019	3,521,449

Notes to the Financial Statements (continued)

36. DEFERRED TAX

Details of the deferred tax liabilities and assets recognized by the Group and movements during the current and prior reporting periods are as follows:

	Inventories of properties RMB'000	Revaluation of properties RMB'000	Provision for LAT RMB'000	Withholding tax RMB'000	Tax losses RMB'000	Recognition of revenue over time RMB'000	Total RMB'000
At 1 January 2018							
as originally reported	2,260,699	510,695	(205,324)	393,900	(83,866)	–	2,876,104
Adjustment on initial adoption of HKFRS 15	–	–	–	–	10,719	348,520	359,239
Restated balance at 1 January 2018 (Re-presented)	2,260,699	510,695	(205,324)	393,900	(73,147)	348,520	3,235,343
(Credited)/Charged to profit or loss (note 11)	(306,421)	(761)	(348,714)	142,057	5,604	282,689	(225,546)
At 31 December 2018 and 1 January 2019 (Re-presented)	1,954,278	509,934	(554,038)	535,957	(67,543)	631,209	3,009,797
Acquisition of subsidiaries (note 42)	36,463	–	–	–	–	–	36,463
(Credited)/Charged to profit or loss (note 11)	(349,493)	42,807	(549,879)	209,584	(25,490)	(114,096)	(786,567)
At 31 December 2019	1,641,248	552,741	(1,103,917)	745,541	(93,033)	517,113	2,259,693

Represented by:

	2019 RMB'000	2018 RMB'000 (Re-presented)
Deferred tax liabilities	2,869,227	3,171,148
Deferred tax assets	(609,534)	(161,351)
	2,259,693	3,009,797

The two-tiered profits tax rates regime have no material impact on the deferred tax balances of the Group as at 31 December 2019 and 2018 as the qualifying entity nominated by the Group did not have material temporary differences as at 31 December 2019 and 2018. Deferred tax assets and liabilities of other group entities that are subject to Hong Kong profits tax continue to be measured using a flat rate of 16.5%.

As at 31 December 2019, the Group has unused tax losses of RMB1,112,871,000 (2018: RMB808,842,000) available for offset against future profits. A deferred tax asset of RMB93,033,000 (2018: RMB67,543,000) has been recognized in respect of tax losses of approximately RMB372,130,000 (2018: RMB270,170,000). No deferred tax assets have been recognized in respect of the remaining tax losses of RMB740,741,000 (2018: RMB538,672,000) due to unpredictability of future profit streams. The tax losses incurred by the relevant subsidiaries may be carried forward for five years from the financial year when the corresponding loss was incurred.

Notes to the Financial Statements (continued)

36. DEFERRED TAX (CONTINUED)

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between the PRC and the jurisdiction of the foreign investors. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in the PRC in respect of earnings generated from 1 January 2008 and the applicable tax rates are 5% or 10%.

As at 31 December 2019, deferred tax liabilities of approximately RMB745,541,000 (2018: RMB535,957,000) have been recognized in respect of the undistributed earnings of certain PRC subsidiaries amounting to approximately RMB14,826,234,000 (2018: RMB10,634,561,000). Deferred tax liabilities of approximately RMB97,205,000 as at 31 December 2019 (2018: RMB41,938,000) have not been established for the withholding and other taxation that would be payable on the unremitted earnings of other relevant PRC subsidiaries as at 31 December 2019, as in the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. Such unremitted earnings amounted to approximately RMB2,028,691,000 as at 31 December 2019 (2018: RMB923,351,000).

37. SHARE CAPITAL

	Number of ordinary shares '000	Carrying amount RMB'000 (Re-presented)
Issued and fully paid		
Balance at 1 January 2018	2,282,240	1,850,440
Issue of shares under Rights Issue (note)	1,141,120	3,728,660
Balance at 31 December 2018, 1 January 2019 and 31 December 2019	3,423,360	5,579,100

Note:

On 5 February 2018, the Company completed the rights issue of approximately 1,141,120,000 rights shares on the basis of one rights share for every two existing shares of the Company at a subscription price of HK\$4.08 per rights share (the "Rights Issue"). The gross proceeds from the Rights Issue was HK\$4,655,769,000, equivalent to approximately RMB3,767,588,000 and after deducting direct transaction costs of RMB38,928,000, net proceeds amounting to approximately RMB3,728,660,000 were raised by the Company. The number of issued ordinary shares of the Company was increased to approximately 3,423,360,000 shares and the share capital of the Company was increased from RMB1,850,440,000 to RMB5,579,100,000.

Notes to the Financial Statements (*continued*)

38. RESERVES

THE GROUP

Details of the movements in the Group's reserves are set out in the consolidated statement of changes in equity. The nature and purpose of the reserves are as follows:

Translation reserve

Translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of group entities into the presentation currency in accordance with the accounting policy set out in note 4.20.

Asset revaluation reserve

Asset revaluation reserve arises from revaluation of assets such as properties (excluding investment properties).

Statutory reserves

In accordance with the relevant PRC rules and regulations, certain subsidiaries of the Company are required to appropriate certain percentage of their profits after tax to the respective statutory reserves. Subject to certain restrictions as set out in the relevant PRC regulations, these statutory reserves may be used to make good previous years' losses, if any, or to increase the paid-up capital of the respective subsidiaries, and may be used for capital expenditure on staff welfare facilities, as appropriate.

Retained profits

Retained profits of the Group comprise:

	2019 RMB'000	2018 RMB'000 (Re-presented)
Final dividend proposed for the year (note 12(a))	586,810	322,741
Retained profits after proposed dividend	12,866,573	10,629,244
Total retained profits as at 31 December	13,453,383	10,951,985

Notes to the Financial Statements (*continued*)

38. RESERVES (CONTINUED)

THE COMPANY

Details of the movements on the Company's reserves are as follows:

	Translation reserve RMB'000 (note)	Retained profits RMB'000	Total RMB'000
At 1 January 2018 (Re-presented)	(100,558)	1,006,158	905,600
Profit for the year	–	1,245,927	1,245,927
Other comprehensive income for the year			
Exchange differences arising from translation into presentation currency	485,354	–	485,354
2018 interim dividend paid (note 12(a))	–	(89,323)	(89,323)
2017 final dividend paid (note 12(b))	–	(83,659)	(83,659)
At 31 December 2018 and 1 January 2019 (Re-presented)	384,796	2,079,103	2,463,899
Profit for the year	–	343,160	343,160
Other comprehensive income for the year			
Exchange differences arising from translation into presentation currency	181,181	–	181,181
2019 interim dividend paid (note 12(a))	–	(184,465)	(184,465)
2018 final dividend paid (note 12(b))	–	(337,514)	(337,514)
At 31 December 2019	565,977	1,900,284	2,466,261

Note:

As disclosed in note 3.3, the Group has changed the presentation currency for its consolidated financial statements from HK\$ to RMB. The change has resulted in recognition of translation reserve for the Company which amounted to RMB100,558,000 (debit balance) and RMB384,796,000 (credit balance) respectively as at 31 December 2017 and 31 December 2018.

Retained profits of the Company comprise:

	2019 RMB'000	2018 RMB'000 (Re-presented)
Final dividend proposed for the year (note 12(a))	586,810	322,741
Retained profits after proposed dividend	1,313,474	1,756,362
Total retained profits as at 31 December	1,900,284	2,079,103

Notes to the Financial Statements (*continued*)

39. NON-CONTROLLING INTERESTS

The total non-controlling interests as at 31 December 2019 were RMB1,967,981,000 (2018: RMB727,591,000), which are attributed to those subsidiaries not wholly-owned by the Group. In the opinion of the directors, none of the non-controlling interests of these subsidiaries are material to the Group.

40. LEASES

HKFRS 16 was adopted on 1 January 2019 without restatement of comparative figures. Details of the transitional requirements that were applied as at 1 January 2019 are set out in note 2.1. The accounting policies applied subsequent to the date of initial application, i.e. 1 January 2019, are disclosed in note 4.10A.

(a) The Group as lessee

Nature of leasing activities

The Group has interests in leasehold land and buildings where the Group is the registered owner of those property interests. In addition, the Group leases various properties including office premises, quarters and shopping mall. For certain leases, the periodic rent is fixed over the lease term whereas for other leases, rental is adjusted periodically at predetermined rate. Leases of these properties are negotiated for periods ranging from six months to six years (2018: six months to thirty years).

Right-of-use assets

The carrying amounts of right-of-use assets recognized and the movements during the year are as follows:

	Land use rights of the properties with ownership interests held for own use RMB'000	Other properties leased for own use RMB'000	Total RMB'000
At 1 January 2019 (Restated) (note 2.1)	271,979	39,981	311,960
Translation adjustment	–	94	94
Additions	–	7,669	7,669
Reclassification from investment properties (note 15(b))	905	–	905
Reclassification from inventories of properties (note 16(a))	47,270	–	47,270
Depreciation provided	(8,021)	(11,333)	(19,354)
At 31 December 2019	312,133	36,411	348,544

During the year ended 31 December 2019, the Group derived income from subleasing right-of-use assets amounting to RMB14,868,000.

Notes to the Financial Statements (*continued*)

40. LEASES (CONTINUED)

(a) The Group as lessee (Continued)

Lease liabilities

The movements of lease liabilities during the year are as follows:

	Other properties leased for own use RMB'000
At 1 January 2019 (Restated) (note 2.1)	39,356
Translation adjustment	95
Additions	7,669
Interest expense (note 10)	1,132
Lease payments	(12,094)
At 31 December 2019	36,158

Future lease payments are due as follows:

	Minimum lease payments RMB'000	Interest RMB'000	Present value RMB'000
As at 31 December 2019			
Within one year	12,515	(945)	11,570
In the second to fifth year, inclusive	16,153	(2,025)	14,128
Over five years	11,250	(790)	10,460
	39,918	(3,760)	36,158

	Minimum lease payments RMB'000	Interest RMB'000	Present value RMB'000
As at 1 January 2019 (Restated)			
Within one year	18,370	(1,061)	17,309
In the second to fifth year, inclusive	11,765	(2,305)	9,460
Over five years	13,750	(1,163)	12,587
	43,885	(4,529)	39,356

Notes to the Financial Statements (*continued*)

40. LEASES (CONTINUED)

(a) The Group as lessee (Continued)

Lease liabilities (Continued)

The present value of future lease payments are analyzed as follows:

	31 December 2019 RMB'000	1 January 2019 RMB'000 (Restated)
Current liabilities	11,570	17,309
Non-current liabilities	24,588	22,047
	36,158	39,356

For the year ended 31 December 2019, the Group had total cash outflows for leases of RMB17,254,000.

Comparative information under HKAS 17

As at 31 December 2018, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises payable as follows:

	2018 RMB'000 (Re-presented)
Within one year	13,798
In the second to fifth years, inclusive	20,644
Over five years	14,375
	48,817

Notes to the Financial Statements (*continued*)

40. LEASES (CONTINUED)

(b) The Group as lessor

The Group leases out its investment properties (note 15), the shopping mall and certain units of inventories of properties under operating lease arrangements with leases negotiated for period ranging from six months to twenty years (2018: one year to twenty years). Future minimum rentals receivable under non-cancellable operating leases as at 31 December 2019 and 2018 are as follows:

	2019 RMB'000	2018 RMB'000 (Re-presented)
Within one year	233,710	241,279
After one year but within two years	199,629	166,007
After two years but within three years	158,898	127,858
After three years but within four years	96,537	99,323
After four years but within five years	75,082	71,449
Over five years	196,492	201,937
	960,348	907,853

Notes to the Financial Statements (*continued*)

41. HOLDING COMPANY STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	31 December 2019 RMB'000	31 December 2018 RMB'000 (Re-presented)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		3,498	1,064
Right-of-use assets		3,629	–
Interests in subsidiaries	52	1,741,537	1,703,388
		1,748,664	1,704,452
Current assets			
Other receivables, prepayments and deposits		1,393	51,956
Amounts due from subsidiaries		20,107,180	16,550,574
Cash and bank balances		470,792	2,830,324
		20,579,365	19,432,854
Current liabilities			
Other payables and accruals		70,725	49,167
Amounts due to subsidiaries		4,412,509	6,225,661
Lease liabilities		3,680	–
Borrowings		1,567,679	510,884
		6,054,593	6,785,712
Net current assets		14,524,772	12,647,142
Non-current liabilities			
Borrowings		8,228,075	6,308,595
Net assets		8,045,361	8,042,999
CAPITAL AND RESERVES			
Share capital	37	5,579,100	5,579,100
Reserves	38	2,466,261	2,463,899
Total equity		8,045,361	8,042,999

On behalf of the directors

Zhuang Yong
Director

Wang Man Kwan, Paul
Director

42. BUSINESS COMBINATION

On 29 May 2019, China Overseas Grand Oceans Property Group Company Limited (“COGO Property”), an indirect wholly-owned subsidiary of the Company, entered into a sale and purchase agreement (the “Agreement”) with 深圳中海新城鎮發展有限公司 Shenzhen China Overseas New Town Development Limited* (the “Seller”), an indirect wholly owned subsidiary of China Overseas Holdings Limited (“COHL”) in relation to the acquisition of the entire issued share capital of 中海投資渭南有限公司 China Overseas Investment Wei Nan Limited* (the “Target Company”) at a consideration of RMB490,000,000 (the “Acquisition”). COHL is an intermediate holding company of COLI.

The Target Company and its subsidiaries (“Weinan Group”) are principally engaged in the development, sale, investment and management of properties in the PRC.

The Acquisition was completed on 15 August 2019.

The recognized amounts of identifiable assets and liabilities of Weinan Group on the date of the Acquisition are as follows:

	2019 RMB'000
Cash consideration	490,000
Recognized amounts of identifiable assets acquired and liabilities assumed	
Property, plant and equipment	94
Inventories of properties	916,908
Amount due from a related company	100,000
Trade and other receivables, prepayments and deposits	88,905
Contract assets	1,508
Tax prepaid	11,126
Restricted cash and deposits	25,501
Cash and bank balances	311,643
Trade and other payables	(234,704)
Contract liabilities	(694,514)
Deferred tax liabilities	(36,463)
Total identified net assets acquired at fair value	490,004
Gain on bargain purchase	(4)

Notes to the Financial Statements (continued)

42. BUSINESS COMBINATION (CONTINUED)

An analysis of cash flows arising from the Acquisition is as follows:

	2019 RMB'000
Cash (outflow)/inflow on the Acquisition	
Purchase consideration settled in cash during the year	(490,000)
Cash and bank balances acquired	311,643
Cash outflow included in cash flows from investing activities	(178,357)
Transaction costs included in cash flows from operating activities	(341)
	(178,698)

* English translation is for identification only

The fair value of the land and buildings classified as inventories of properties at the date of Acquisition have been determined with reference to the valuation carried out by CHFT Advisory and Appraisal Limited.

The fair value of trade and other receivables including amount due from a related company amounted to RMB188,905,000, which is same as the gross amount of these receivables. None of these receivables have been impaired and it is expected that the full contractual amounts can be collected.

The Group recognized a gain on bargain purchase of RMB4,000 in "other gains or losses — Gain on bargain purchase".

Since the date of the Acquisition, Weinan Group has contributed revenue of RMB48,564,000 and loss of RMB5,729,000 to the Group's profit or loss. Had the Acquisition been occurred on 1 January 2019, the Group's revenue and profit would have been RMB28,659,995,000 and RMB3,489,218,000 respectively. This pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the Acquisition been completed on 1 January 2019, nor it is intended to be a projection of future performance.

The acquisition-related costs of RMB341,000 have been expensed and are included in administrative expenses.

43. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) During the year ended 31 December 2018, capital contributions by the non-controlling shareholders of certain subsidiaries amounted to RMB53,600,000, of which RMB3,340,000 was settled by cash payment. The remaining amount of RMB50,260,000 was settled through the current accounts with the non-controlling shareholders, of which RMB39,600,000 was included in "amounts due to non-controlling interests" and RMB10,660,000 was included in "amounts due from non-controlling interests".

In addition, a subsidiary returned capital amounting to RMB60,000,000 to the non-controlling shareholder during the year ended 31 December 2018. The amount was settled through the current account with the non-controlling shareholder, which was included in "amounts due from non-controlling interests".

Notes to the Financial Statements (*continued*)

43. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(b) Reconciliation of liabilities arising from financing activities

	Borrowings RMB'000	Guaranteed notes payable RMB'000 (note 35)	Lease liabilities RMB'000 (note 40)	Amounts due to associates RMB'000	Amounts due to joint ventures RMB'000	Amounts due to non- controlling interests RMB'000	Amounts due to related companies RMB'000
At 1 January 2019 as originally reported (Re-presented)	22,370,308	6,252,285	-	23,334	1,179,244	2,044,260	378,390
Adjustment on initial adoption of HKFRS 16	-	-	39,356	-	-	-	-
Restated balance as at 1 January 2019	22,370,308	6,252,285	39,356	23,334	1,179,244	2,044,260	378,390
<i>Changes from cash flows</i>							
Proceeds from new borrowings	13,115,462	-	-	-	-	-	-
Repayment of borrowings	(8,457,218)	-	-	-	-	-	-
Advances received	-	-	-	41,470	401,991	5,017,734	-
Repayment of advances	-	-	-	(981)	(766,109)	(2,107,417)	-
Redemption of guaranteed notes	-	(2,719,792)	-	-	-	-	-
Capital element of lease payment	-	-	(10,962)	-	-	-	-
Interest element of lease payment	-	-	(1,132)	-	-	-	-
Interest paid	(1,075,201)	(238,930)	-	-	-	(5,645)	(2,522)
	3,583,043	(2,958,722)	(12,094)	40,489	(364,118)	2,904,672	(2,522)
<i>Exchange adjustment</i>	239,609	45,866	95	-	-	-	-
<i>Other changes</i>							
Interest expenses	1,075,201	182,020	1,132	-	-	5,645	3,362
Increase in lease liabilities from entering into new leases	-	-	7,669	-	-	-	-
Dividend credited to the current account with non-controlling interests	-	-	-	-	-	127,500	-
	1,075,201	182,020	8,801	-	-	133,145	3,362
As at 31 December 2019	27,268,161	3,521,449	36,158	63,823	815,126	5,082,077	379,230

Notes to the Financial Statements (continued)

43. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(b) Reconciliation of liabilities arising from financing activities (Continued)

	Borrowings RMB'000 (Re-presented)	Guaranteed notes payable RMB'000 (Re-presented) (note 35)	Lease liabilities RMB'000 (Re-presented)	Amounts due to associates RMB'000 (Re-presented)	Amounts due to joint ventures RMB'000 (Re-presented)	Amounts due to non- controlling interests RMB'000 (Re-presented)	Amounts due to related companies RMB'000 (Re-presented)
At 1 January 2018	20,238,936	2,640,792	–	147,853	1,031,684	512,768	4,131,340
<i>Changes from cash flows</i>							
Proceeds from new borrowings	9,783,961	–	–	–	–	–	–
Repayment of borrowings	(8,112,527)	–	–	–	–	–	–
Net proceeds from issue of guaranteed notes	–	3,189,059	–	–	–	–	–
Advances received	–	–	–	1,817	740,205	2,128,584	3,364
Repayment of advances	–	–	–	(26,070)	(592,645)	(557,492)	(3,763,792)
Interest paid	(876,436)	(215,991)	–	–	–	–	(41,045)
	794,998	2,973,068	–	(24,253)	147,560	1,571,092	(3,801,473)
<i>Exchange adjustment</i>	459,938	396,278	–	–	–	–	7,562
<i>Other changes</i>							
Interest expenses	876,436	242,147	–	–	–	–	40,961
Dividend credited to the current account with associates	–	–	–	(100,266)	–	–	–
Contribution from non-controlling interests (note (a))	–	–	–	–	–	(39,600)	–
	876,436	242,147	–	(100,266)	–	(39,600)	40,961
As at 31 December 2018	22,370,308	6,252,285	–	23,334	1,179,244	2,044,260	378,390

Notes to the Financial Statements (*continued*)

44. RETIREMENT BENEFITS SCHEMES

The Group operates the Mandatory Provident Fund Scheme (the “MPF Scheme”) under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. The MPF Scheme is a defined contribution retirement benefits scheme and contributions to the scheme are made based on a percentage of the employees’ relevant income and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group’s employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the subsidiaries of the Company which operate in the PRC are required to participate in a central pension scheme operated by the local municipal governments. These PRC subsidiaries are required to contribute certain percentage of its payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

The total expenses recognized in profit or loss of RMB39,914,000 (2018: RMB37,507,000) represent contributions paid/payable to these schemes by the Group in the year. As at 31 December 2019, no forfeited contribution under these schemes is available to reduce the contribution payable in future (2018: nil).

45. PLEDGE OF ASSETS

As at 31 December 2019, the carrying amount of the assets pledged by the Group to secure for borrowings and banking facilities granted to the Group are analyzed as follows:

	2019 RMB'000	2018 RMB'000 (Re-presented)
Pledge for borrowings and banking facilities of the Group		
Owners-occupied properties (note 16(b))	–	220,120
Inventories of properties (note 23)	1,416,589	200,600
	1,416,589	420,720

46. COMMITMENTS

As at 31 December 2019, the Group had significant commitments as follows:

	2019 RMB'000	2018 RMB'000 (Re-presented)
Contracted for but not provided for in the financial statements:		
— Acquisition of land	1,296,490	1,998,569
— Property development	14,803,485	9,074,407
Authorized but not contracted for:		
— Acquisition of land	1,621,172	2,010,029

Notes to the Financial Statements (continued)

47. CONTINGENT LIABILITIES

(a) Guarantees

The Group provided guarantees to banks and government agencies for mortgage loans granted to certain purchasers of the Group's properties as well as a bank in respect of the banking facilities granted to a joint venture. The amount of the relevant facilities utilized and outstanding as at 31 December 2019 and 2018 are as follows:

	2019 RMB'000	2018 RMB'000 (Re-presented)
Mortgage loans granted by banks and government agencies to certain purchasers of the Group's properties	30,453,627	29,306,309
Bank loan granted by a bank to a joint venture	–	225,000

In the opinion of the directors, if the purchasers default payment of the mortgage loans during the period of guarantee, the net realizable value of the related properties can cover the repayment of the outstanding loans together with the accrued interest thereon. In addition, as assessed by the directors, the risk of default of payment of the outstanding bank loan together with the accrued interest thereon by the joint venture was low. Accordingly, no provision has been made in the financial statements in respect of these guarantees.

- (b) The Group, being a property developer in the PRC, is subject to extensive government requirements in many aspects of its property development operations, including but not limited to land acquisition and transfer, planning and construction works, etc. In the ordinary course of business, certain development projects of the Group are behind the development timeline as stipulated in the land transfer agreements or approved by the local authorities. According to the regulation "Measures for Disposal of Unused Land" and other relevant regulations, the government is empowered to levy idle land penalty and in the extreme case, confiscate the undeveloped land depending on circumstances. In addition, the delay in development may constitute default in contract terms of the underlying land transfer agreements, of which the transferor can claim for liquidated damages.

As at 31 December 2018, the Group had exposure to the aforementioned penalties and liquidated damages which were mainly related to the land parcels of the project companies in Zibo and Jiujiang. The directors estimated that the maximum amount of penalty and liquidated damages would not be more than approximately RMB569 million in aggregate, which was quantified based on the relevant regulations and terms included in the land transfer agreements. The carrying amount of the concerned land parcels as at 31 December 2018 was approximately RMB2,808 million in aggregate.

47. CONTINGENT LIABILITIES (CONTINUED)

(b) (Continued)

As disclosed below, the project companies in Zibo has reached agreement with local government authority regarding those land parcels during the year and thus the Group's exposure as at 31 December 2019 is reduced to mainly related to the relevant land parcels at Jiujiang. Further details about the projects are discussed below:

Zibo projects

During the year, the project companies in Zibo ("Zibo Project Companies") together with a related company, entered into an agreement with the local government authority for the resumption of the concerned land parcels. The related company is the subsidiary of COHL and it engaged in primary development of the concerned land parcels previously.

Pursuant to the agreement, Zibo Project Companies returned the concern land parcels to the local government authority during the year and the local government authority agreed on the amount of compensation to be RMB852 million. The directors estimated that Zibo Project Companies was entitled to receive a sum of approximately RMB748 million which is receivable as to RMB577 million from the local government authority and RMB171 million from the related company. The balances were included in "trade and other receivables, prepayments and deposits" and "amount due from a related company" respectively.

Jiujiang projects

The directors estimated that the maximum amount of penalty and liquidated damages exposed by the project companies in Jiujiang ("Jiujiang Project Companies") as at 31 December 2019 would not be more than RMB423 million, which was quantified based on to the relevant regulations and terms included in the land transfer agreements. The carrying amount of the concerned land parcels as of 31 December 2019 was RMB2,039 million.

Having regard to their past experiences in handling similar matter, the latest local development and the latest project status, the legal advice, together with the application for extending the commencement dates of construction works submitted and the recent communications with relevant local government authorities on the updated position of the project, the directors considered that the risk of confiscation of the concerned land parcels as well as penalty and liquidated damages exposed by Jiujiang Project Companies is low.

Having regard to the nature and latest development of the projects concerned, the directors are of the opinion that no non-conformity instance would have material impact on the result and financial position of the Group.

Notes to the Financial Statements (*continued*)

48. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in these financial statements, the Group had the following material transactions with related parties:

- (a) On 31 March 2017, the Company and COLI entered into a trademark licence agreement (the "2017 Trademark Licence Agreement"), pursuant to which COLI grants a non-exclusive right to the Company, its subsidiaries and the member company as defined in the 2017 Trademark Licence Agreement, a licence to use the trademark "中海地產" (the "Trademark") in the PRC for a term commenced from 1 April 2017 and ending on 31 March 2020 (both days inclusive). The Trademark is registered in the PRC and owned by a subsidiary of COLI.

Pursuant to the 2017 Trademark Licence Agreement, the Company agrees to pay 1% of its audited annual consolidated turnover for each financial year ended 31 December 2017, 2018 and 2019 as royalty. The royalty payments are to be made in arrears on or before 31 March each succeeding year until the expiry or earlier termination of the 2017 Trademark Licence Agreement. The total royalty payable under the 2017 Trademark Licence Agreement for each of the twelve-month period between 1 April 2017 and 31 March 2020 shall not exceed HK\$200,000,000.

Royalty incurred by the Group under the 2017 Trademark Licence Agreement in respect of financial year ended 31 December 2019 amounted to HK\$200,000,000, equivalent to RMB175,809,000 (2018: HK\$200,000,000, equivalent to RMB168,350,000).

As at 31 December 2019, the royalty payable to COLI amounted to HK\$200,000,000, equivalent to RMB179,163,000 (2018: HK\$200,000,000, equivalent to RMB175,239,000) which was included in "trade and other payables" in the consolidated statement of financial position. The amount due to COLI is unsecured, interest-free and repayable based on terms stipulated in the 2017 Trademark Licence Agreement.

- (b) On 28 July 2017, the Group entered into tenancy agreements (the "2017 Tenancy Agreements") with 北京仁和燕都房地產開發有限公司 and 北京中信新城逸海房地產開發有限公司 for a term of three years commenced from 1 August 2017 and ending on 31 July 2020. The annual rent payable by 北京仁和燕都房地產開發有限公司 and 北京中信新城逸海房地產開發有限公司 are RMB10,260,000 and RMB5,145,000 respectively. The total rental payable under the 2017 Tenancy Agreements for each of the twelve-month period between 1 August 2017 to 31 July 2020 shall not exceed RMB15,405,000.

For the year ended 31 December 2019, total rental income generated from the 2017 Tenancy Agreements is RMB14,671,000 (2018: RMB14,671,000). As at 31 December 2019, rental income received in advance from these leases amounted to RMB1,284,000 (2018: RMB1,284,000).

48. RELATED PARTY TRANSACTIONS (CONTINUED)

- (c) On 20 October 2017, the Company and COPH entered into a framework agreement (“Prevailing Projects Framework Agreement”) for the provision of property management services and engineering services by COPH and its subsidiaries (“COPH Group”) to the Group for property development projects in the PRC, Hong Kong, Macau and other locations (excluding the New Projects under the New Projects Framework Agreement as defined below). The Prevailing Projects Framework Agreement commenced on 1 January 2018 and will end on 30 June 2020. COPH was a subsidiary of COLI on 1 June 2015 and subsequently becomes a fellow subsidiary of COLI.

According to the Prevailing Projects Framework Agreement, the total service fee payable by the Group for the years ended 31 December 2018 and 2019 and for the period commencing on 1 January 2020 and ending on 30 June 2020 shall not exceed HK\$115,600,000, HK\$96,500,000 and HK\$57,900,000 respectively.

On 20 October 2017, the Company and COPH entered into another framework agreement (“New Projects Framework Agreement”) pursuant to which any member of COPH Group may provide property management services and engineering services to the Group for certain property development projects in emerging third-tier cities in the PRC acquired by the Group from COLI Group in December 2016 which were not managed by COPH Group at the date of entering into the New Projects Framework Agreement (the “New Projects”). The New Projects Framework Agreement commenced on 1 January 2018 and will end on 30 June 2020.

According to the New Projects Framework Agreement, the total service fee payable by the Group for the years ended 31 December 2018 and 2019 and for the period commencing on 1 January 2020 and ending on 30 June 2020 shall not exceed HK\$47,800,000, HK\$45,900,000 and HK\$25,800,000 respectively.

For the year ended 31 December 2019, property management services and engineering services fee incurred by the Group under the Prevailing Projects Framework Agreement and the New Projects Framework Agreement amounting to HK\$95,618,000, equivalent to RMB84,052,000 (2018: HK\$46,011,000, equivalent to RMB38,730,000) and HK\$35,410,000, equivalent to RMB31,127,000 (2018: HK\$13,166,000, equivalent to RMB11,082,000) respectively.

As at 31 December 2019, property management services and engineering services fee payable to COPH Group amounted to RMB5,233,000 (2018: RMB13,198,000) in aggregate, which were included in “trade and other payables” in the consolidated statement of financial position and property management services and engineering services fee prepaid to COPH Group amounted to RMB50,000 (2018: RMB2,181,000). The services fee payable by the Group to COPH Group are unsecured, interest-free and will be settled pursuant to the payment terms set out in the relevant agreements.

48. RELATED PARTY TRANSACTIONS (CONTINUED)

- (d) On 24 March 2016, the Company and China State Construction International Holdings Limited (“CSC”) entered into a framework agreement (the “Construction Supervision Service Agreement”) pursuant to which the Group may appoint CSC and its subsidiaries (excluding subsidiary(ies) listed on any stock exchange) (“CSC Group”) as construction supervisor to provide supervision and management service for the property development projects of the Group in the PRC. The Construction Supervision Service Agreement has a term of three years commenced from 1 April 2016 and ended on 31 March 2019 (both days inclusive). CSC is a fellow subsidiary of COLI.

The management fee with respect to the construction supervision service will be charged on a “cost plus” basis, which will be determined based on the total staff cost incurred by CSC Group with respect to the provision of the construction supervision service plus a margin of 18%. The management fee payable by the Group to CSC Group for the period from 1 April 2016 to 31 December 2016, each of the two years ended 31 December 2018 and for the period from 1 January 2019 to 31 March 2019 shall not exceed RMB110,000,000, RMB136,000,000, RMB191,000,000 and RMB65,000,000 respectively. The management fee payable by the Group to CSC Group will be settled monthly in cash.

For the year ended 31 December 2019, no management fee was incurred by the Group under the Construction Supervision Service Agreement whereas management fee incurred by the Group for the year ended 31 December 2018 was RMB11,948,000. As at 31 December 2019 and 2018, there was no service fee payable by the Group to CSC Group.

- (e) During the year ended 31 December 2019, 中海監理有限公司 (“China Overseas Supervision”) provided construction supervision services to the Group in respect of the prevailing projects of the Group. Previously, China Overseas Supervision was a wholly-owned subsidiary of CSC. Following the completion of acquisition of the entire equity interests in China Overseas Supervision by China State Construction Development Holdings Limited (“CSCD”, formerly known as Far East Global Group Limited) on 26 June 2018, China Overseas Supervision becomes a wholly-owned subsidiary of CSCD. CSCD is a fellow subsidiary of COLI.

For the year ended 31 December 2019, total management fee charged by China Overseas Supervision against the Group (excluding those management fee incurred under the Construction Supervision Service Agreement set out in note (d) above amounted to RMB17,184,000 (2018: RMB11,097,000).

48. RELATED PARTY TRANSACTIONS (CONTINUED)

- (f) On 26 June 2018, the Company and CSCD entered into a framework agreement (“COGO Framework Agreement”) pursuant to which the Group may appoint CSCD and its subsidiaries (“CSCD Group”) to provide project management, supervision and consultancy services for the property development projects of the Group in the PRC. The COGO Framework Agreement covers a period commenced from 1 July 2018 and ending on 30 June 2021.

According to the COGO Framework Agreement, the maximum total contract sum that may be awarded by the Group to CSCD Group for the period from 1 July 2018 to 31 December 2018, each of the two years ending 31 December 2020 and for the period from 1 January 2021 to 30 June 2021 shall not exceed HK\$30 million, HK\$60 million, HK\$60 million and HK\$30 million respectively. The management services fee payable by the Group to CSCD Group will be settled pursuant to the payment terms set out in the tender documents or specific contracts.

For the year ended 31 December 2019, contracts with contract sum amounting to HK\$13,524,000, equivalent to RMB11,888,000 were awarded by the Group but no management service fee was incurred by the Group under the COGO Framework Agreement. For the year ended 31 December 2018, no contract was awarded by the Group.

- (g) On 27 June 2019, the Company and China State Construction Engineering Corporation Limited (“CSCECL”) entered into an agreement (“CSCECL Group Engagement Agreement”) whereby CSCECL and its subsidiaries (“CSCECL Group”) may tender for the Group’s construction works in the PRC and if tender is awarded, CSCECL Group may act as construction contractor for the Group. CSCECL is an intermediate holding company of COLI.

The CSCECL Group Engagement Agreement has a term of three years from 1 July 2019 and ending on 30 June 2022.

According to the CSCECL Group Engagement Agreement, the maximum total contract sum that may be awarded by the Group to CSCECL Group for the period between 1 July 2019 and 31 December 2019, each of the two years ending 31 December 2021 and for the period from 1 January 2022 to 30 June 2022 shall not exceed HK\$300 million, HK\$600 million, HK\$600 million and HK\$300 million respectively. The construction fees payable by the Group to CSCECL Group will be settled pursuant to the payment terms set out in the tender documents for the relevant construction contracts.

For the year ended 31 December 2019, no contract was awarded by the Group under the CSCECL Group Engagement Agreement.

Notes to the Financial Statements (*continued*)

48. RELATED PARTY TRANSACTIONS (CONTINUED)

- (h) On 23 October 2019, the Company and COPH entered into a framework agreement (“Framework Agreement for Car Parking Spaces”) pursuant to which COPH Group may from time to time enter into transactions with the Group for the acquisition of right-of-use of car parking spaces (including the right to occupy, assign or rent out, until the land use right(s) of the relevant project(s) at which the car parking spaces are located expire) (the “Transactions”), such car parking spaces being car parking spaces of developments or properties built, developed or owned by the Group and managed by COPH Group as property manager.

The Framework Agreement for Car Parking Spaces has a term of three years commenced from 1 December 2019 and ending on 30 November 2022 (both dates inclusive).

The aggregate amount of the Transactions to be entered into between COPH Group and the Group for the period from 1 December 2019 to 31 December 2019, for the financial years ending 31 December 2020 and 2021 and for the period from 1 January 2022 to 30 November 2022 shall not exceed nil, HK\$400 million, HK\$300 million and HK\$300 million respectively.

For the year ended 31 December 2019, no Transaction took place under the Framework Agreement for Car Parking Spaces.

- (i) As at 31 December 2018, certain of the Group’s borrowings and banking facilities are guaranteed by the subsidiaries of COLI. During the year ended 31 December 2019, the Group fully settled the related borrowings.
- (j) As at 31 December 2018, the Group provided corporate guarantee amounting to RMB225,000,000 to secure for certain borrowings and banking facilities of a joint venture. During the year ended 31 December 2019, the joint venture fully settled the borrowings.
- (k) For the year ended 31 December 2019, the Group received interest income from a joint venture and non-controlling interests amounting to RMB8,903,000 (2018: RMB12,744,000) and RMB36,971,000 (2018: RMB33,696,000) (note 8) respectively whereas it incurred interest expense amounting to RMB5,645,000 (2018: nil) and RMB3,362,000 (2018: RMB40,961,000) on amounts due to non-controlling interests and related companies (note 10) respectively.
- (l) In connection with the Rights Issue of the Company as detailed in note 37, the Company entered into an underwriting agreement with COLI on 7 November 2017. Pursuant to the underwriting agreement, COLI agreed to underwrite the rights shares of Company and COLI was entitled to underwriting commission which was calculated at 1.5% of the aggregate subscription price in respect of the underwritten shares.

The Rights Issue was completed on 5 February 2018 and an underwriting commission amounting to HK\$43,316,000, equivalent to RMB36,461,000 was incurred and paid by the Group to COLI during the year ended 31 December 2018.

Notes to the Financial Statements (*continued*)

48. RELATED PARTY TRANSACTIONS (CONTINUED)

(m) Key management personnel remunerations include the following expenses:

	2019 RMB'000	2018 RMB'000 (Re-presented)
Short-term employee benefits	24,786	20,795
Post-employment benefits	554	521
	25,340	21,316

(n) Transactions with other state-controlled entities in the PRC

The Group is not controlled by the PRC government. However, the Group is an associated company of COLI while the ultimate holding company of COLI is CSCEC, a company controlled by the PRC government, as such, the PRC government is regarded as a related party of the Group. Apart from the transactions already disclosed above, the Group also conducts business with other state-controlled entities. The directors consider the transactions with those state-controlled entities are conducted on an arms' length basis.

In connection with its property development activities, other than those disclosed in notes above, the Group awards construction and other works contracts to PRC entities, some of which, to the best knowledge of management, are state-controlled entities. The Group has also entered into various transactions with the PRC government departments or agencies, mainly regarding acquisition of land through tendering to those government departments or agencies. During the year ended 31 December 2019, the Group acquired certain parcels of land from the PRC government departments through public tender at an aggregate consideration of approximately RMB27,860,384,000 (2018: RMB19,599,551,000).

In addition, in the normal course of business, the Group entered into various deposits and lending transactions with banks and financial institutions which are state-controlled entities.

The Group is active in property sale and property leasing in various provinces in the PRC. The directors are of the opinion that it is impracticable to ascertain the identity of all the counterparties and accordingly whether the transactions are with state-controlled entities. However, the directors are of the opinion that the transactions with state-controlled entities are entered into in the normal course of business of the Group.

In addition to the above transactions and balances, details of the Group's other balances with related parties are disclosed in consolidated statement of financial position and notes 27, 28, 29 and 30.

The related party transactions in respect of item (a) to (j) and (l) above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

Notes to the Financial Statements (*continued*)

49. CAPITAL MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital and to support the Group's financial stability and growth.

The Group monitors its capital structure on the basis of net gearing ratio (i.e. net debt to equity). Net debt includes borrowings and guaranteed notes payable less restricted cash and deposits and cash and bank balances. Equity represents equity attributable to owners of the Company. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or issue new shares.

The net gearing ratios of the Group as at 31 December 2019 and 2018 were as follows:

	2019 RMB'000	2018 RMB'000 (Re-presented)
Borrowings	27,268,161	22,370,308
Guaranteed notes payable	3,521,449	6,252,285
Less: restricted cash and deposits	(10,671,299)	(6,924,235)
Less: cash and bank balances	(16,755,435)	(22,221,637)
Net debt	3,362,876	N/A
Capital represented by equity attributable to owners of the Company	19,545,327	17,040,376
Net gearing ratio	17.2%	N/A

The Group targets to maintain a net gearing ratio to be in line with the expected changes in economic and financial conditions. The Group's overall strategy on capital management remains unchanged throughout the year.

Notes to the Financial Statements (*continued*)

50. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

50.1 Categories of financial instruments

	2019 RMB'000	2018 RMB'000 (Re-presented)
Financial assets		
Financial assets at fair value through profit or loss*	–	3,914
Financial assets at fair value through other comprehensive income [®]	1,000	1,000
Financial assets at amortized cost [#]	31,405,495	32,147,734
Financial liabilities		
Financial liabilities at amortized cost [^]	47,970,729	40,963,003

* a derivative financial instrument

[®] unlisted equity investments

[#] including trade and other receivables, amounts due from an associate, a joint venture, non-controlling interests and a related company and bank balances including restricted cash and deposits

[^] including trade payables, other payables and accruals, amounts due to associates, joint ventures, non-controlling interests and other related companies, lease liabilities, borrowings and guaranteed notes payable

50.2 Financial results by financial instruments

	2019 RMB'000	2018 RMB'000 (Re-presented)
Fair value (loss)/gain on:		
Financial asset at fair value through profit or loss	(3,927)	2,098
Interest income or (expenses) on:		
Financial assets at amortized cost	337,187	332,338
Financial liabilities at amortized cost	(1,267,360)	(1,159,544)

Notes to the Financial Statements (continued)

50. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY (CONTINUED)

50.3 Fair value measurement

(a) **Financial instruments not measured at fair value**

Financial instruments not measured at fair value include trade and other receivables, amounts due from/to associates, joint ventures, non-controlling interests and other related companies, bank balances including restricted cash and deposits, trade payables, other payables and accruals, lease liabilities, borrowings and guaranteed notes payable.

Due to their short-term nature, the carrying values of trade and other receivables, amounts due from/to associates, joint ventures, non-controlling interests and other related companies, bank balances including restricted cash and deposits, trade payables, other payables and accruals approximate their fair values.

For disclosure purpose, the fair values of amount due to a related company, lease liabilities, borrowings and guaranteed notes payable are not materially different from their carrying values. Those fair values have been determined by using discounted cash flow model and are classified as level 3 in the fair value hierarchy. Significant inputs include the discount rates used to reflect the credit risks of the Group.

(b) **Financial instruments measured at fair value**

The following table provides an analysis of financial instruments carried at fair value as at 31 December 2019 and 2018 by level of fair value hierarchy.

— Level 1: Quoted prices (unadjusted) in active markets for identical financial instruments

— Level 2: Inputs other than quoted prices included in Level 1 that are observable for asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

— Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
As at 31 December 2019				
Financial assets				
Financial assets at fair value through profit or loss				
— A derivative financial instrument	—	—	—	—
Financial assets at fair value through other comprehensive income				
— Unlisted equity investments	—	—	1,000	1,000
	—	—	1,000	1,000

Notes to the Financial Statements (*continued*)

50. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY (CONTINUED)

50.3 Fair value measurement (Continued)

(b) Financial instruments measured at fair value (Continued)

	Level 1 RMB'000 (Re-presented)	Level 2 RMB'000 (Re-presented)	Level 3 RMB'000 (Re-presented)	Total RMB'000 (Re-presented)
As at 31 December 2018				
Financial assets				
Financial assets at fair value through profit or loss				
— A derivative financial instrument	–	3,914	–	3,914
Financial assets at fair value through other comprehensive income				
— Unlisted equity investments	–	–	1,000	1,000
	–	3,914	1,000	4,914

During the years ended 31 December 2019 and 2018, there were no transfers between levels.

The fair value of the derivative financial instrument, as being an interest rate swap contract, as at 31 December 2018 was determined with reference to the valuation carried out by Asset Appraisal Limited, an independent professional valuer. The valuation was determined as the present value of the estimated future cash flows based on observed yield curves.

The fair value of the unlisted equity investments as at 31 December 2019 and 2018 was estimated by the directors using discounted cash flow method which is a level 3 fair value measurement.

The movements in fair value measurement within Level 3 during the year ended 31 December 2019 and 2018 are as follows:

	RMB'000
Unlisted equity investments	
At 1 January 2018 under HKAS 39	–
Effect of adoption of HKFRS 9	1,000
At 1 January 2018 as restated, 31 December 2018 (Re-presented) and 31 December 2019 under HKFRS 9	1,000

Notes to the Financial Statements (*continued*)

51. FINANCIAL RISK MANAGEMENT

51.1 Financial risk management objectives and policies

The Group's activities expose it to a variety of financial risks which comprise market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. Risk management is carried out by key management under the policies approved by the board of directors. The Group does not have written risk management policies. However, the directors and senior management of the Group meet regularly to identify and evaluate risks and to formulate strategies to manage financial risks.

51.2 Market risk

(a) **Foreign currency risk**

Currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group mainly operates in Hong Kong and the PRC. The functional currency of the Company and its subsidiaries are HK\$ and RMB. The Group is exposed to currency risk arising from fluctuations on foreign currencies against the functional currencies of the group entities. Currently the Group does not have foreign currency hedging policy but the management continuously monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The Group continues to conduct its sales mainly in RMB and make payments in RMB. In addition, the Group's borrowings were denominated in HK\$, US\$ and RMB. The directors consider that a natural hedge mechanism existed to certain extent and the Group's exposure on foreign currency risk is not significant. The Group would, however, closely monitor the volatility of the RMB exchange rate.

(b) **Interest rate risk**

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rate. The Group's interest rate risk mainly arises from lease liabilities, borrowings, guaranteed notes payable and certain balances with associates, joint ventures, non-controlling interests and other related companies which are interest-bearing. Balances arranged at variable rates and fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. Details of the Group's lease liabilities, borrowings, guaranteed notes payable and balances with associates, joint ventures, non-controlling interests and other related companies at the end of the reporting period are disclosed in notes 40, 34, 35, 27, 28, 29 and 30 respectively.

The Group's bank balances also expose it to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on the bank balances. The directors consider the Group's exposure on bank deposits is not significant as interest-bearing deposits are within short maturity periods in general.

51. FINANCIAL RISK MANAGEMENT (CONTINUED)**51.2 Market risk (Continued)****(b) Interest rate risk (Continued)**

The management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

The Group entered into an interest rate swap contract for a US\$ denominated floating-rate bank loan. Details of this interest rate swap contract are set out in note 22.

The following sensitivity demonstrates the Group's exposure to a reasonably possible change in interest rates on its floating rate borrowings (including amount due to a related company), after excluding the bank loan which is hedged by the interest rate swap contract, with all other variables held constant at the end of the reporting period (in practice, the actual trading results may differ from the sensitivity analysis below and the difference could be material):

	2019 RMB'000	2018 RMB'000 (Re-presented)
(Decrease)/Increase in profit after tax and retained profits		
+ 50 basis point ("bp") (2018: 50 bp)	(2,946)	(5,693)
-10 bp (2018: 10 bp)	589	1,139

The changes in interest rates do not affect the Group's other components of equity. The above sensitivity analysis is prepared based on the assumption that the borrowing period of the balances outstanding at the end of the reporting period resembles that of the corresponding financial year.

51.3 Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group. The Group's exposure to credit risk mainly arises from granting credit to customers in the ordinary course of its operations and from its investing activities. The Group is also exposed to credit risk arising from the provision of financial guarantees.

The carrying amounts of trade and other receivables, amounts due from an associate, a joint venture, non-controlling interests and a related company, restricted cash and deposits and cash and bank balances represent the Group's maximum exposure to credit risk in respect of these items. The maximum exposure to credit risk in respect of the financial guarantees provided by the Group at the end of the reporting period is disclosed in note 47(a).

Notes to the Financial Statements (*continued*)

51. FINANCIAL RISK MANAGEMENT (CONTINUED)

51.3 Credit risk (Continued)

The Group limits its exposure to credit risk by rigorously selecting the counterparties and to deal with credit worthy counterparties. Credit risk on restricted cash and deposits as well as cash and bank balances (note 31) is mitigated as cash is deposited with reputable banks and financial institutions. The credit and investment policies have been consistently applied and are considered to have been effective in limiting the Group's exposure to credit risk to a desirable level.

For the years ended 31 December 2019 and 2018, the Group did not have significant concentration of credit risk as its trade and other receivables consist of a large number of customers and debtors. Further quantitative data in respect of the Group's exposure to credit risk arising from trade and other receivables are disclosed in note 26.

In respect of trade receivables as at 31 December 2019 and 2018, significant amount was arising from sales of properties and at the end of the reporting period, the application of mortgage loans in respect of those sales was in progress. Management expects that the customers will settle these receivables in due course once the mortgage loans are granted by the banks or the government agencies. In addition, the titles of those properties have been retained by the banks or the government agencies. Accordingly, management considers that recoverability concern over those receivables is remote.

In respect of other receivables, amounts due from an associate, a joint venture, non-controlling interests and a related company, the Group considers the background and regularly monitors the financial condition of the counterparties to assess the recoverability of the outstanding balances.

The Group typically provides guarantees to banks or government agencies in connection with the customers' borrowing of mortgage loans to finance their purchase of properties (note 47(a)). If a purchaser defaults on the payment of the mortgage during the period of guarantee, the bank or government agency holding the mortgage may demand the Group to repay the outstanding loan and any interest accrued thereon. As the mortgage loans are generally secured by properties with current market price higher than the guaranteed amounts, management considers the Group would recover any loss incurred arising from the guarantee provided by the Group. In addition, as of 31 December 2018, the Group provided guarantees to a bank for a bank loan of a joint venture. In the opinion of the management, it was not probable that the joint venture would default payment of the bank loan and accordingly, the Group's credit risk in this respect was remote. The joint venture has fully settled that bank loan during the year ended 31 December 2019.

51. FINANCIAL RISK MANAGEMENT (CONTINUED)

51.3 Credit risk (Continued)

Impairment under ECL model

As disclosed in note 4.12(ii), the Group recognizes loss allowance for ECL on debt instruments carried at amortized cost and measured at fair value through other comprehensive income. The Group applies simplified approach to measure ECL on trade receivables; and general approach to measure ECL on other receivables, amounts due from an associate, a joint venture, non-controlling interests and a related company, restricted cash and deposits and cash and bank balances. Under the simplified approach, the Group measures loss allowance at an amount equal to lifetime ECL. Under the general approach, the Group applies the “3-stage” impairment model for ECL measurement based on change in credit risk since initial recognition as follows:

- Stage 1: If the credit risk of the financial instrument has not increased significantly since initial recognition, the financial instrument is included in Stage 1.
- Stage 2: If the credit risk of the financial instrument has increased significantly since initial recognition but is not deemed to be credit-impaired, the financial instrument is included in Stage 2.
- Stage 3: If the financial instrument is credit-impaired, the financial instrument is included in Stage 3.

The ECL for financial instruments in Stage 1 are measured at an amount equal to 12-month ECL whereas the ECL for financial instruments in Stage 2 or Stage 3 are measured at an amount equal to lifetime ECL.

When determining whether the risk of default has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group’s historical experience and informed credit risk assessment and including forward-looking information.

Having regard to industry practice, relevant regulation and government measures, as well as the background and behavior of the debtors/counterparties, the Group assumes that the credit risk on a financial asset has increased significantly if it is more than 90 days past due. In addition, the Group considers that a financial asset to be in default when: (i) the debtor is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held); or (ii) the financial asset is more than 180 days past due.

Notes to the Financial Statements (*continued*)

51. FINANCIAL RISK MANAGEMENT (CONTINUED)

51.3 Credit risk (Continued)

Impairment under ECL model (Continued)

At the end of each reporting period, the Group assesses whether a financial asset is credit-impaired. A financial asset is considered credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:

- (a) significant financial difficulty of the debtor;
- (b) a breach of contract, such as a default or past due event;
- (c) granting a concession to the debtors that the lender would not otherwise consider for economic or contractual reasons relating to the debtor's financial difficulty; or
- (d) it is becoming probable that the debtor will enter bankruptcy or other financial reorganization.

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 of default. The assessment of the probability of default and loss given default is based on historical data and adjusted for forward-looking information through the use of industry trend and experienced credit judgment to reflect the qualitative factors, and through the use of multiple probability-weighted scenarios.

In respect of trade receivables, they are subject to collective assessment using a provision matrix for which the ECL rate is considered to be minimal.

In respect of other receivables, amounts due from an associate, a joint venture, non-controlling interests and a related company, the Group considers the background and regularly monitors the financial condition of the counterparties to assess the recoverability of the outstanding balances. Loss allowance of RMB6,000,000 has been provided for other receivables as at 31 December 2019 (2018: RMB6,000,000) for which the balance was considered credit-impaired and it was measured at an amount equal to lifetime ECL. Other than that, management does not expect any loss allowance from non-performance by the counterparties and assessed that the ECL in respect of these balances was immaterial.

Notes to the Financial Statements (*continued*)

51. FINANCIAL RISK MANAGEMENT (CONTINUED)

51.4 Liquidity risk

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group is exposed to liquidity risk in respect of settlement of trade and other payables including amounts due to related companies and its financing obligations, and also in respect of its cash flow management. The Group's objective is to maintain prudent liquidity risk management which is to maintain sufficient cash and bank balances as well as to make available of fund through adequate amounts of committed credit facilities and the ability to close out market positions. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. The liquidity policies have been consistently applied and are considered to have been effective in managing the Group's liquidity risk.

The following tables summarize the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities based on agreed scheduled repayment dates set out in the agreements or the repayment schedules agreed with the banks and other lenders.

	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	On demand or within 1 year RMB'000	1 to 2 years RMB'000	2 to 5 years RMB'000	Over 5 years RMB'000
As at 31 December 2019						
Non-derivatives						
Bank borrowings	25,968,161	27,847,716	12,458,046	6,370,200	9,019,470	–
Other loans	1,300,000	1,404,275	220,526	851,770	331,979	–
Guaranteed notes payable	3,521,449	3,773,193	171,409	3,601,784	–	–
Trade payables, other payables and accruals	10,804,705	10,804,705	10,804,705	–	–	–
Amounts due to associates	63,823	63,823	63,823	–	–	–
Amounts due to joint ventures	815,126	815,126	815,126	–	–	–
Amounts due to non-controlling interests	5,082,077	5,082,077	5,082,077	–	–	–
Amounts due to related companies	379,230	382,082	382,082	–	–	–
Lease liabilities	36,158	39,918	12,515	6,526	9,627	11,250
	47,970,729	50,212,915	30,010,309	10,830,280	9,361,076	11,250
Financial guarantees issued — Maximum amount guaranteed	–	30,453,627	30,453,627	–	–	–

Notes to the Financial Statements (continued)

51. FINANCIAL RISK MANAGEMENT (CONTINUED)

51.4 Liquidity risk (Continued)

	Carrying amount RMB'000 (Re-presented)	Total contractual undiscounted cash flow RMB'000 (Re-presented)	On demand or within 1 year RMB'000 (Re-presented)	1 to 2 years RMB'000 (Re-presented)	2 to 5 years RMB'000 (Re-presented)
As at 31 December 2018					
Non-derivatives					
Bank borrowings	21,070,308	22,907,246	5,086,965	9,318,545	8,501,736
Other loans	1,300,000	1,373,012	1,373,012	–	–
Guaranteed notes payable	6,252,285	6,679,946	2,989,404	167,654	3,522,888
Trade payables, other payables and accruals	8,715,182	8,715,182	8,715,182	–	–
Amounts due to associates	23,334	23,334	23,334	–	–
Amounts due to joint ventures	1,179,244	1,179,244	1,179,244	–	–
Amounts due to non-controlling interests	2,044,260	2,044,260	2,044,260	–	–
Amounts due to related companies	378,390	384,796	306,927	77,869	–
	40,963,003	43,307,020	21,718,328	9,564,068	12,024,624
Financial guarantees issued					
— Maximum amount guaranteed	–	29,531,309	29,531,309	–	–

As disclosed in note 51.3, it is not probable that guarantees provided would result in significant financial impact to the Group including credit loss and liquidity risk.

Notes to the Financial Statements (*continued*)

52. PARTICULARS OF SUBSIDIARIES

The particulars of the subsidiaries as at 31 December 2019 are as follows:

Name of subsidiaries	Place of incorporation/ operation	Class of shares held	Paid up issued/ registered capital	Proportion of nominal value of issued/ registered capital held by the Company		Principal activities
				Directly	Indirectly	
Be Affluent Limited	British Virgin Islands	Ordinary	1 share of US\$1 each	–	100%	Investment holding
Best Beauty Investments Limited	British Virgin Islands	Ordinary	1 share of US\$1 each	–	100%	Investment holding
Big Leader International Limited	Hong Kong	Ordinary	HK\$1	–	100%	Investment holding
Bliss China Limited	British Virgin Islands	Ordinary	1 share of US\$1 each	–	100%	Investment holding
Bliss Depot Limited	British Virgin Islands	Ordinary	1 share of US\$1 each	–	100%	Investment holding
Capital Way Investment Limited	Hong Kong	Ordinary	HK\$1	–	100%	Investment holding
Celestial Wealth Developments Limited	British Virgin Islands	Ordinary	1 share of US\$1 each	–	100%	Investment holding
China Grand (H.K.) Limited	Hong Kong	Ordinary	HK\$1	–	100%	Investment holding
China Overseas Grand Oceans Finance IV (Cayman) Limited	Cayman Islands	Ordinary	1 share of US\$1 each	100%	–	Fund-raising
China Overseas Grand Oceans Investments Limited	Hong Kong	Ordinary	HK\$1	100%	–	Investment holding
China Overseas Grand Oceans Property Group Company Limited	PRC [^]	Paid up capital	RMB133,000,000	–	100%	Investment holding and property development
China Overseas Yin Chuan Investments Limited	Hong Kong	Ordinary	HK\$1	–	100%	Investment holding
Citirich International Limited	Hong Kong	Ordinary	HK\$1	–	100%	Investment holding
City Glory Holdings Limited	British Virgin Islands	Ordinary	1 share of US\$1 each	–	100%	Investment holding
East Pacific (H.K.) Limited	Hong Kong	Ordinary	HK\$1	–	100%	Investment holding
Elite Way Developments Limited	British Virgin Islands	Ordinary	1 share of US\$1 each	–	100%	Investment holding
Ever United Development Limited	Hong Kong	Ordinary	HK\$1	100%	–	Financing and investment
Flourish Ray Developments Limited	British Virgin Islands	Ordinary	1 share of US\$1 each	–	100%	Investment holding
Global East Development Limited	Hong Kong	Ordinary	HK\$1	–	100%	Investment holding
Grand Marine Investment Limited	British Virgin Islands	Ordinary	1 share of US\$1 each	–	100%	Investment holding
Grand Success Group Holdings Limited	Hong Kong	Ordinary	HK\$1	–	100%	Investment holding

Notes to the Financial Statements (continued)

52. PARTICULARS OF SUBSIDIARIES (CONTINUED)

Name of subsidiaries	Place of incorporation/operation	Class of shares held	Paid up issued/registered capital	Proportion of nominal value of issued/ registered capital held by the Company		Principal activities
				Directly	Indirectly	
Grand Will Asia Pacific Limited	Hong Kong	Ordinary	HK\$1	–	100%	Investment holding
Grandca International Limited	Hong Kong	Ordinary	HK\$1	–	100%	Investment holding
Grandwide (H.K.) Limited	Hong Kong	Ordinary	HK\$1	–	100%	Investment holding
Greatbo (H.K.) Limited	Hong Kong	Ordinary	HK\$1	–	100%	Investment holding
Great Kind Development Limited	Hong Kong	Ordinary	HK\$1	–	100%	Investment holding
Green Fortune Developments Limited	British Virgin Islands	Ordinary	1 share of US\$1 each	–	100%	Investment holding
Hai Jian International Limited	British Virgin Islands	Ordinary	1 share of US\$1 each	–	100%	Investment holding
Han Yang Limited	British Virgin Islands	Ordinary	1 share of US\$1 each	–	100%	Investment holding
Hero Path Investments Limited	British Virgin Islands	Ordinary	1 share of US\$1 each	–	100%	Investment holding
High Faith Investments Limited	British Virgin Islands	Ordinary	1 share of US\$1 each	–	100%	Investment holding
Hongbo Global Limited	British Virgin Islands	Ordinary	1 share of US\$1 each	–	100%	Investment holding
Hong Bao Limited	British Virgin Islands	Ordinary	1 share of US\$1 each	–	100%	Investment holding
Jet Pacific Investment Limited	Hong Kong	Ordinary	HK\$1	–	100%	Investment holding
Long Capital Investment Limited	Hong Kong	Ordinary	HK\$1	–	100%	Investment holding
Longwide Holdings Limited	Hong Kong	Ordinary	HK\$1	–	100%	Investment holding
Main Lucky International Limited	Hong Kong	Ordinary	HK\$1	–	100%	Investment holding
Marine Key Investments Limited	British Virgin Islands	Ordinary	1 share of US\$1 each	–	100%	Investment holding
Max Pacific Investment Limited	Hong Kong	Ordinary	HK\$1	–	100%	Investment holding
Moonstar Development Limited	Hong Kong	Ordinary	HK\$1	–	100%	Investment holding
Ocean Continent Investments Limited	British Virgin Islands	Ordinary	1 share of US\$1 each	–	100%	Investment holding
Ocean Ease Developments Limited	British Virgin Islands	Ordinary	1 share of US\$1 each	–	100%	Investment holding
Ocean Empire Developments Limited	British Virgin Islands	Ordinary	1 share of US\$1 each	–	100%	Investment holding
Oceanic Roc Limited	British Virgin Islands	Ordinary	1 share of US\$1 each	–	100%	Investment holding

Notes to the Financial Statements (*continued*)

52. PARTICULARS OF SUBSIDIARIES (CONTINUED)

Name of subsidiaries	Place of incorporation/ operation	Class of shares held	Paid up issued/ registered capital	Proportion of nominal value of issued/ registered capital held by the Company		Principal activities
				Directly	Indirectly	
Pacific King Holdings Limited	Hong Kong	Ordinary	HK\$1	–	100%	Investment holding
Pandue Investments Limited	British Virgin Islands	Ordinary	100 shares of US\$1 each	100%	–	Investment holding
Precious Joy Investments Limited	British Virgin Islands	Ordinary	1 share of US\$1 each	–	100%	Investment holding
Qiangfa Holdings Limited	British Virgin Islands	Ordinary	1 share of US\$1 each	–	100%	Investment holding
Rainbow Hero Investments Limited	British Virgin Islands	Ordinary	1 share of US\$1 each	–	100%	Investment holding
Sea Coral Enterprises Limited	British Virgin Islands	Ordinary	1 share of US\$1 each	–	100%	Investment holding
Sino Global Development Limited	Hong Kong	Ordinary	HK\$1	–	100%	Investment holding
Sure Shine International Limited	British Virgin Islands	Ordinary	1 share of US\$1 each	–	100%	Investment holding
Talent Race Holdings Limited	Hong Kong	Ordinary	HK\$1	–	100%	Investment holding
Top Wonder International Limited	Hong Kong	Ordinary	HK\$1	–	100%	Investment holding
Unibo Holdings Limited	Hong Kong	Ordinary	HK\$1	–	100%	Investment holding
Wan Chang International Limited	British Virgin Islands	Ordinary	1 share of US\$1 each	–	100%	Investment holding
Well Great (H.K.) Limited	Hong Kong	Ordinary	HK\$1	–	100%	Investment holding
World Dynasty Limited	Hong Kong	Ordinary	HK\$1	–	100%	Investment holding
World United International Limited	Hong Kong	Ordinary	HK\$1	–	100%	Investment holding
上海中海宏洋置業有限公司	PRC [#]	Paid up capital	RMB15,000,000	–	100%	Investment holding
中海宏洋地產(合肥)有限公司	PRC [^]	Paid up capital	RMB580,000,000	–	100%	Property development
中海宏洋地產(銀川)有限公司	PRC [*]	Paid up capital	RMB840,000,000	–	85%	Property development
中海宏洋地產(贛州)有限公司	PRC [*]	Paid up capital	RMB100,000,000	–	88%	Property development
中海宏洋地產(揚州)有限公司	PRC [^]	Paid up capital	RMB1,720,000,000 (2018: RMB1,000,000,000)	–	100%	Property development
中海宏洋地產(常州)有限公司	PRC [^]	Paid up capital	RMB600,000,000	–	100%	Property development
中海宏洋地產(鹽城)有限公司	PRC [^]	Paid up capital	RMB938,839,800	–	100%	Property development

Notes to the Financial Statements (continued)

52. PARTICULARS OF SUBSIDIARIES (CONTINUED)

Name of subsidiaries	Place of incorporation/operation	Class of shares held	Paid up issued/registered capital	Proportion of nominal value of issued/ registered capital held by the Company		Principal activities
				Directly	Indirectly	
中海宏洋置地(常州)有限公司	PRC [^]	Paid up capital	RMB50,000,000	–	100%	Property development
中海宏洋置地(鹽城)有限公司	PRC [^]	Paid up capital	RMB350,000,000	–	100%	Property development
中海宏洋置業(合肥)有限公司	PRC [^]	Paid up capital	RMB1,000,000,000	–	100%	Property development
中海宏洋置業(常州)有限公司	PRC [^]	Paid up capital	RMB1,000,000,000	–	100%	Property development
中海宏洋(南通)投資開發有限公司	PRC [^]	Paid up capital	RMB600,000,000	–	100%	Property development
中海海宏(南通)投資開發有限公司	PRC [^]	Paid up capital	RMB50,000,000	–	100%	Property development
北京中海宏洋地產有限公司	PRC [#]	Paid up capital	RMB28,000,000	–	100%	Investment holding and property development
北京中京藝苑置業有限公司	PRC [#]	Paid up capital	RMB30,000,000	–	100%	Property investment and property leasing
北京華世柏利房地產開發有限公司	PRC [#]	Paid up capital	RMB60,000,000	–	90%	Property development
北京快樂城堡購物中心有限公司	PRC [#]	Paid up capital	RMB10,000,000	–	100%	Property leasing
北京通惠房地產開發有限責任公司	PRC [#]	Paid up capital	RMB100,000,000	–	100%	Property development
呼和浩特市大環城建設開發有限公司	PRC [#]	Paid up capital	RMB120,000,000	–	80%	Property development
呼和浩特市中海宏洋地產有限公司	PRC [#]	Paid up capital	RMB50,000,000	–	100%	Property development
呼和浩特市榮城房地產開發有限公司	PRC [#]	Paid up capital	RMB15,000,000	–	100%	Property development
南寧中海宏洋房地產有限公司	PRC [#]	Paid up capital	RMB20,000,000	–	100%	Property development
深圳市建地投資有限公司	PRC [#]	Paid up capital	RMB10,000,000	–	100%	Investment holding
廣州中海橡園房地產發展有限公司	PRC [#]	Paid up capital	RMB10,000,000	–	100%	Property development
廣州市光大花園房地產開發有限公司	PRC [*]	Paid up capital	RMB800,000,000	–	100%	Property development
廣州新都房地產發展有限公司	PRC [#]	Paid up capital	RMB10,000,000	–	90%	Property development
蘭州中海宏洋房地產開發有限公司	PRC [#]	Paid up capital	RMB1,000,000,000	–	100%	Property development
吉林市中海宏洋房地產開發有限公司	PRC [#]	Paid up capital	RMB10,000,000	–	100%	Property development
吉林市怡恒偉業房地產開發有限公司	PRC [#]	Paid up capital	RMB200,000,000	–	70%	Property development
吉林市中海海華房地產開發有限公司	PRC [#]	Paid up capital	RMB50,000,000	–	85%	Property development
桂林建禹地產有限公司	PRC [#]	Paid up capital	RMB10,000,000	–	100%	Property development

Notes to the Financial Statements (continued)

52. PARTICULARS OF SUBSIDIARIES (CONTINUED)

Name of subsidiaries	Place of incorporation/operation	Class of shares held	Paid up issued/registered capital	Proportion of nominal value of issued/ registered capital held by the Company		Principal activities
				Directly	Indirectly	
合肥中海新華房地產開發有限公司	PRC [#]	Paid up capital	RMB20,000,000	–	60%	Property development
合肥中海榮祥房地產開發有限公司	PRC [#]	Paid up capital	RMB20,000,000	–	100%	Property development
南寧中海宏洋置業有限公司	PRC [^]	Paid up capital	RMB1,700,000,000	–	100%	Property development
紹興中海宏洋地產有限公司	PRC [#]	Paid up capital	RMB50,000,000	–	100%	Property development
揚州中海宏洋置業有限公司	PRC [#]	Paid up capital	RMB50,000,000	–	100%	Property development
揚州中潤置業有限公司	PRC [^]	Paid up capital	RMB758,000,000	–	100%	Property development
汕頭市中海宏洋地產有限公司	PRC [#]	Paid up capital	RMB230,000,000	–	100%	Property development
汕頭市中海宏洋置業有限公司	PRC [#]	Paid up capital	RMB50,000,000	–	100%	Property development
中海宏洋地產(徐州)有限公司	PRC [^]	Paid up capital	RMB126,150,000	–	100%	Property development
中海宏洋(鹽城)房地產開發有限公司	PRC [*]	Paid up capital	RMB344,375,000	–	100%	Property development
中海宏洋地產(黃山)有限公司	PRC [*]	Paid up capital	US\$2,500,000	–	55%	Property development
中海潤洋置業(揚州)有限公司	PRC [^]	Paid up capital	US\$60,000,000	–	100%	Property development
中海宏洋(深圳)投資有限公司	PRC [^]	Paid up capital	RMB600,000,000 (2018: RMB244,000,000)	–	100%	Property development
中海瘦西湖房地產揚州有限公司	PRC [#]	Paid up capital	RMB240,000,000	–	70%	Property development
揚州市江都區信泰置業有限公司	PRC [#]	Paid up capital	RMB185,600,000	–	100%	Property development
中海宏洋地產汕頭投資有限公司	PRC [#]	Paid up capital	RMB370,000,000	–	100%	Property development
汕頭中海宏洋南濱置業發展有限公司 (formerly known as 汕頭中海宏洋南濱大酒店有限公司)	PRC [#]	Paid up capital	RMB10,000,000	–	100%	Hotel operation
汕頭中信南烽房地產有限公司	PRC [#]	Paid up capital	RMB20,000,000	–	51%	Property development
汕頭市金平區中信房產開發有限公司	PRC [#]	Paid up capital	RMB10,000,000	–	70%	Property development
中海宏洋惠州控股有限公司	PRC [#]	Paid up capital	RMB200,000,000	–	100%	Property development
惠州市中海宏洋地產有限公司	PRC [#]	Paid up capital	RMB200,000,000	–	100%	Property development
中海宏洋惠州城市建設開發有限公司	PRC [#]	Paid up capital	RMB130,000,000	–	100%	Property development
惠州盈通投資有限公司	PRC [#]	Paid up capital	RMB60,000,000	–	100%	Property development

Notes to the Financial Statements (continued)

52. PARTICULARS OF SUBSIDIARIES (CONTINUED)

Name of subsidiaries	Place of incorporation/operation	Class of shares held	Paid up issued/registered capital	Proportion of nominal value of issued/ registered capital held by the Company		Principal activities
				Directly	Indirectly	
中海宏洋惠州湯泉開發有限公司	PRC [#]	Paid up capital	RMB60,000,000	–	100%	Hotel operation
南昌宏洋地產有限公司	PRC [#]	Paid up capital	RMB20,000,000	–	100%	Property development
中海宏洋廬山西海(九江)投資有限公司	PRC [#]	Paid up capital	RMB800,000,000	–	100%	Property development
九江市深水灣投資有限公司	PRC [#]	Paid up capital	RMB10,000,000	–	100%	Property development
九江市桃花里投資有限公司	PRC [#]	Paid up capital	RMB10,000,000	–	100%	Property development
九江市溪谷投資有限公司	PRC [#]	Paid up capital	RMB10,000,000	–	100%	Property development
九江市納帕谷投資有限公司	PRC [#]	Paid up capital	RMB10,000,000	–	100%	Property development
淄博中海海頤置業有限公司	PRC [^]	Paid up capital	RMB338,360,000 (2018: RMB266,360,000)	–	100%	Property development
淄博中海海悅置業有限公司	PRC [^]	Paid up capital	RMB220,369,600	–	100%	Property development
淄博中海海昌置業有限公司	PRC [^]	Paid up capital	RMB206,571,410	–	100%	Property development
中海淄博置業有限公司	PRC [^]	Paid up capital	HK\$770,000,000	–	100%	Property development
濰坊中海興業房地產有限公司	PRC [#]	Paid up capital	RMB50,000,000	–	100%	Property development
中海宏洋置業(徐州)有限公司	PRC [#]	Paid up capital	RMB60,000,000	–	34%	Property development
西寧中海宏洋房地產開發有限公司	PRC [#]	Paid up capital	RMB20,000,000	–	100%	Property development
贛州中海地產有限公司	PRC [#]	Paid up capital	RMB10,000,000	–	100%	Property development
中海海華南通地產有限公司	PRC [#]	Paid up capital	RMB20,000,000	–	100%	Property development
合肥中海宏洋海東房地產開發有限公司	PRC [#]	Paid up capital	RMB10,000,000	–	100%	Property development
合肥中海宏洋海創房地產開發有限公司	PRC [#]	Paid up capital	RMB10,000,000	–	100%	Property development
揚州海龍置業有限公司	PRC [#]	Paid up capital	RMB50,000,000	–	100%	Property development
揚州海富置業有限公司	PRC [#]	Paid up capital	RMB50,000,000	–	100%	Property development
包頭市中海宏洋地產有限公司	PRC [#]	Paid up capital	RMB10,000,000	–	60%	Property development
蘭州中海海富房地產開發有限公司	PRC [#]	Paid up capital	RMB10,000,000	–	100%	Property development
包頭市宏洋海富地產有限公司	PRC [#]	Paid up capital	RMB10,000,000	–	100%	Property development

Notes to the Financial Statements (*continued*)

52. PARTICULARS OF SUBSIDIARIES (CONTINUED)

Name of subsidiaries	Place of incorporation/ operation	Class of shares held	Paid up issued/ registered capital	Proportion of nominal value of issued/ registered capital held by the Company		Principal activities
				Directly	Indirectly	
贛州中海海華房地產有限公司	PRC [#]	Paid up capital	RMB10,000,000	–	100%	Property development
鹽城潤洋置業有限公司	PRC [#]	Paid up capital	RMB20,000,000	–	100%	Property development
南通市華璽房地產有限公司	PRC [#]	Paid up capital	RMB20,000,000	–	30%	Property development
南通市中海海富房地產開發有限公司	PRC [#]	Paid up capital	RMB20,000,000	–	100%	Property development
吉林市中海海富房地產開發有限公司	PRC [#]	Paid up capital	RMB10,000,000	–	100%	Property development
吉林市中海海悅房地產開發有限公司	PRC [#]	Paid up capital	RMB10,000,000	–	100%	Property development
銀川中海海華置業有限公司	PRC [#]	Paid up capital	–	–	100%	Property development
柳州中海宏洋房地產有限公司	PRC [#]	Paid up capital	RMB28,571,429 (2018: RMB20,000,000)	–	70%	Property development
蘭州中海環宇商業運營管理有限公司	PRC [#]	Paid up capital	–	–	100%	Provision of property management services
濟寧中海宏洋房地產有限公司	PRC [#]	Paid up capital	RMB20,000,000 (2018: nil)	–	100%	Property development
合肥中海宏洋海悅房地產開發有限公司	PRC [#]	Paid up capital	RMB50,000,000	–	100%	Property development
呼和浩特市海巍地產有限公司 (note)	PRC [#]	Paid up capital	RMB10,000,000	–	100%	Property development
合肥中海宏洋海華房地產開發有限公司 (note)	PRC [#]	Paid up capital	RMB10,000,000	–	100%	Property development
合肥中海宏洋海晟房地產開發有限公司 (note)	PRC [#]	Paid up capital	RMB20,000,000	–	60%	Property development
合肥中海宏洋海宸房地產開發有限公司 (note)	PRC [#]	Paid up capital	RMB20,000,000	–	60%	Property development
南寧中海宏洋海悅房地產有限公司 (note)	PRC [#]	Paid up capital	RMB33,333,333	–	60%	Property development
蘭州中海海通房地產開發有限公司 (note)	PRC [#]	Paid up capital	RMB16,666,667	–	60%	Property development
蘭州中海海創房地產開發有限公司 (note)	PRC [#]	Paid up capital	–	–	100%	Property development
揚州市海盛房地產開發有限公司 (note)	PRC [#]	Paid up capital	RMB20,000,000	–	100%	Property development
南通市中海海盛房地產開發有限公司 (note)	PRC [#]	Paid up capital	RMB700,000,000	–	60%	Property development
南通市中海海通房地產開發有限公司 (note)	PRC [#]	Paid up capital	RMB800,000,000	–	60%	Property development
南通市中海海潤房地產開發有限公司 (note)	PRC [#]	Paid up capital	RMB650,000,000	–	60%	Property development

Notes to the Financial Statements (continued)

52. PARTICULARS OF SUBSIDIARIES (CONTINUED)

Name of subsidiaries	Place of incorporation/operation	Class of shares held	Paid up issued/registered capital	Proportion of nominal value of issued/ registered capital held by the Company		Principal activities
				Directly	Indirectly	
常州市海盛房地產開發有限公司 (note)	PRC [#]	Paid up capital	RMB20,000,000	–	100%	Property development
中海宏洋恒華置業(常州)有限公司 (note)	PRC [*]	Paid up capital	RMB625,000,000	–	100%	Property development
濰坊中海海翔地產有限公司 (note)	PRC [#]	Paid up capital	RMB10,000,000	–	100%	Property development
濟寧中海宏洋置業有限公司 (note)	PRC [#]	Paid up capital	RMB10,000,000	–	100%	Property development
徐州海創置業有限公司 (note)	PRC [#]	Paid up capital	–	–	100%	Property development
中海投資渭南有限公司 (note)	PRC [#]	Paid up capital	RMB300,000,000	–	100%	Property development
渭南中海興業置業有限公司 (note)	PRC [#]	Paid up capital	RMB400,000,000	–	100%	Property development
渭南中海興華置業有限公司 (note)	PRC [#]	Paid up capital	RMB20,000,000	–	100%	Property development
渭南中海親頤物業服務有限公司 (note)	PRC [#]	Paid up capital	RMB1,000,000	–	100%	Provision of property management services
清遠市中海宏洋房地產開發有限公司 (note)	PRC [#]	Paid up capital	RMB10,000,000	–	100%	Property development
揚州市海創房地產開發有限公司 (note)	PRC [#]	Paid up capital	RMB20,000,000	–	100%	Property development
桂林中海宏洋房地產有限公司 (note)	PRC [#]	Paid up capital	RMB20,000,000	–	100%	Property development
深圳市創史企業管理有限公司 (note)	PRC [#]	Paid up capital	RMB400,000,000	–	51%	Investment holding
南寧市平德房地產開發有限公司 (note)	PRC [*]	Paid up capital	RMB500,000,000	–	41%	Property development
徐州海麗置業有限公司 (note)	PRC [#]	Paid up capital	RMB270,000,000	–	100%	Property development
泉州市中海宏洋海創房地產開發有限公司 (note)	PRC [#]	Paid up capital	RMB10,000,000	–	100%	Property development
吉林市中海海盛房地產開發有限公司 (note)	PRC [#]	Paid up capital	RMB10,000,000	–	100%	Property development
中海宏洋地產(九江)有限公司 (note)	PRC [^]	Paid up capital	–	–	100%	Property development

Note:

These subsidiaries were newly established or invested during the year ended 31 December 2019.

[^] The companies are incorporated in the PRC as wholly-foreign-owned enterprises.

^{*} The companies are incorporated in the PRC as sino-foreign equity joint ventures.

[#] The companies are incorporated in the PRC as limited liability companies.

None of the subsidiaries had any debt securities in issue as at 31 December 2019 and 2018 except for COGO Finance II and COGO Finance IV which had issued 2014 Guaranteed Notes and 2018 Guaranteed Notes respectively as set out in note 35. None of these guaranteed notes were held by the Group.

Notes to the Financial Statements (*continued*)

53. PARTICULARS OF ASSOCIATES

The particulars of the associates as at 31 December 2019 are as follows:

name of subsidiaries	Place of incorporation/ operation	Class of shares held	Paid up issued/ registered capital	Proportion of nominal value of issued/registered capital held by the Company		Principal activities
				Directly	Indirectly	
中信房地產汕頭華鑫有限公司	PRC [#]	Paid up capital	RMB10,000,000	–	30%	Property development
中信房地產汕頭金城有限公司	PRC [#]	Paid up capital	RMB10,000,000	–	45%	Property development
汕頭市中信濱河房地產有限公司	PRC [#]	Paid up capital	RMB10,000,000	–	45%	Property development

[#] The companies are incorporated in the PRC as limited liability companies.

54. PARTICULARS OF JOINT VENTURES

The particulars of the joint ventures as at 31 December 2019 are as follows:

Name of joint venture	Place of incorporation/ operation	Class of shares held	Paid up issued/ registered capital	Proportion of nominal value of issued/registered capital held by the Company		Principal activities
				Directly	Indirectly	
上海金鶴數碼科技發展有限公司	PRC [*]	Paid up capital	US\$2,400,000	–	65%	Property investment and property leasing
中海宏洋海富(合肥)房地產開發有限公司	PRC [*]	Paid up capital	RMB550,000,000	–	45%	Property development
汕頭中海凱旋置業有限公司	PRC [#]	Paid up capital	RMB102,040,816	–	51%	Property development

^{*} The companies are incorporated in the PRC as sino-foreign equity joint ventures.

[#] The company is incorporated in the PRC as a limited liability company.

ISSUER

China Overseas Grand Oceans Finance IV (Cayman) Limited
中國海外宏洋財務IV(開曼)有限公司
89 Nexus Way
Camana Bay
Grand Cayman, KY1-9009
Cayman Islands

GUARANTOR

China Overseas Grand Oceans Group Limited
Suites 701-702, 7/F, Three Pacific Place
1 Queen's Road East
Hong Kong

TRUSTEE

DB Trustees
(Hong Kong) Limited
Level 60, International
Commerce Centre
1 Austin Road West
Kowloon
Hong Kong

REGISTRAR

Deutsche Bank AG,
Hong Kong Branch
Level 60, International
Commerce Centre
1 Austin Road West
Kowloon
Hong Kong

**PRINCIPAL PAYING AGENT
AND TRANSFER AGENT**

Deutsche Bank AG,
Hong Kong Branch
Level 60, International
Commerce Centre
1 Austin Road West
Kowloon
Hong Kong

LEGAL ADVISERS

*To the Issuer and the Guarantor
as to English and Hong Kong law*

Norton Rose Fulbright Hong Kong
38/F, Jardine House
1 Connaught Place
Central
Hong Kong

To the Issuer as to Cayman Islands law

Ogier
11th Floor, Central Tower
28 Queen's Road
Central
Hong Kong

To the Issuer and the Guarantor as to PRC law

Jingtian & Gongcheng
34th Floor, Tower 3
China Central Place
77 Jianguo Road, Chaoyang District
Beijing 100025
PRC

*To the Joint Bookrunners and the Joint Lead
Managers as to PRC law*

JunHe LLP
26/F HKRI Centre One
HKRI Taikoo Hui
288 Shimen Road (No.1)
Shanghai
PRC

*To the Joint Bookrunners and the Joint Lead
Managers as to English law*

Linklaters
11th Floor
Alexandra House
Chater Road
Hong Kong

To the Trustee as to English law

Deacons
5/F, Alexandra House
18, Chater Road
Central
Hong Kong

AUDITOR

BDO Limited
Certified Public Accountants
25th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong